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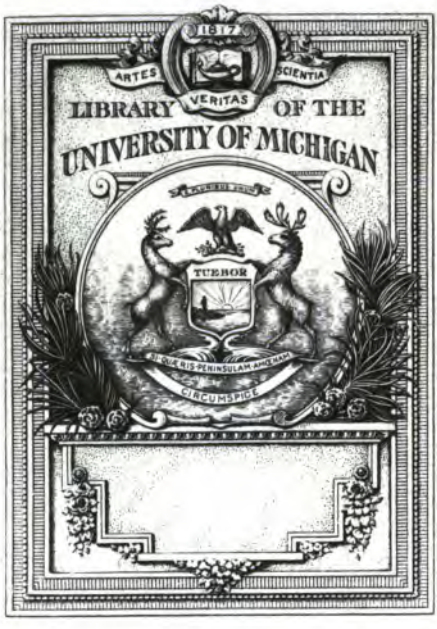
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MEMORANDUM OF THE PRESIDENT

AND

REPORT OF FOURTH ASSISTANT POSTMASTER-GENERAL J. L. BRISTOW

ON

THE INVESTIGATION OF CERTAIN DIVISIONS OF THE POST-OFFICE DEPARTMENT.

WASHINGTON:
GOVERNMENT PRINTING OFFICE.
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MEMORANDUM OF THE PRESIDENT.

WHITE HOUSE, *November 24, 1903.*

Memorandum upon the various papers submitted from the Department of Justice and the Post-Office Department concerning the investigation into the corrupt practices obtaining in the Post-Office Department, notably in the office of the First Assistant Postmaster-General and in the office of the Assistant Attorney-General for that Department. All the documents in the case are herewith forwarded to the Post-Office Department, and will be held ready for submission to the Congress whenever it may choose to ask for them.

It appears that in December, 1902, Postmaster-General Payne and Congressman E. F. Loud, chairman of the Committee on the Post-Office and Post-Roads, held various consultations regarding the postal service, and as a result of these interviews it was determined that as soon as possible after the necessary appropriations could be made by the Congress an investigation should be made of the service, both Messrs. Payne and Loud agreeing as to the need for the investigation and the time when it should take place. Accordingly, an increase of $5,000 in the appropriation bill reported in January was made for the express purpose of carrying on the investigation in question. The reasons for the increase in the appropriation were known only to the Postmaster-General, to Congressman Loud, and to Congressman Bromwell.

Subsequently, sometime in January, information was laid before me by Mr. Seckendorff tending to show improper conduct by Beavers, general superintendent of the division of salaries and allowances, and Machen, general superintendent of the free-delivery system; and by Mr. William Allen White tending to show corruption by or under Tyner, Assistant Attorney-General for the Post-Office Department. First Assistant Postmaster-General Wynne also informed me that he had become suspicious of the integrity of both Machen and Beavers. After full consultation with Mr. Payne it was decided that Fourth Assistant Postmaster-General Bristow should make a thorough and exhaustive investigation of the charges in question and of all matters that might be developed in connection with them. Mr. Bristow's report is a record of as thorough a bit of investigating work as has ever been

done under the Government. After this investigation had been in progress for about two months it became evident that legal proceedings would have to be undertaken against some of the offenders. Owing to the importance of the case it was deemed advisable that special counsel should be employed, and Messrs. Charles J. Bonaparte and Holmes Conrad were chosen for this purpose. Messrs. Bonaparte and Conrad, in their review of the report of Mr. Bristow, speak as follows: "We consider the report an exceptionally able, candid, and impartial review of its subject-matter and that it shows clearly reprehensible misconduct, amounting in many cases to crime, on the part of a number of public officials. It is a voluminous document, but this arises, not from prolixity, but from the nature of the matters discussed. * * * We heartily commend the report and deem its conclusions fully justified by the facts it sets forth; and while regretting in common with all patriotic citizens that the grave abuses of long standing which it reveals should have grown up in the Post-Office Department, we consider the exposure of these abuses and the attempts made to punish those responsible for them a work of the highest public utility, quickly and ably performed." In all that is thus said of the report of Mr. Bristow I cordially agree.

The investigation made by Mr. Bristow discloses a condition of gross corruption in the office of the First Assistant Postmaster-General and in that of the Assistant Attorney-General for the Post-Office Department. In the case of the superintendent of free delivery, Machen, the evidence shows that his misconduct began immediately after his appointment in September, 1893. In the case of the general superintendent of salaries and allowances, Beavers, it began soon after he was appointed to that place in 1897. In the case of Assistant Attorney-General Tyner it has gone on for a number of years, but it is impossible to say exactly when it began. A melancholy feature of the case is that with one exception all the offenders have been for a number of years in the Government service. The following is a list of the fourteen Post-Office employees in the service at the time this investigation was begun, who are apparently most seriously implicated in the wrongdoing, together with an account of the steps that have been taken by the Government in each case and a statement of the date of original appointment of each man in the service:

(The case of ex-First Assistant Postmaster-General Heath, who left the service July 31, 1900, is set forth in the report of Mr. Bristow.)

James N. Tyner, Assistant Attorney-General for Post-Office Department; appointed special agent, Post-Office Department, March 7, 1861; with intervals of a few years has been in the service ever since, and was Postmaster-General under President Grant for several months; he was removed April 22, 1903; he has since been indicted three times.

A. W. Machen, general superintendent free-delivery system; appointed clerk in post-office at Toledo, Ohio, March 1, 1887; continuously in service ever since save for three years; removed May 27, 1903; has since been indicted fourteen times.

George W. Beavers, general superintendent of salaries and allowances; appointed to clerkship in New York post-office January, 1881; continuous service ever since; resignation accepted to take effect March 31, 1903; has since been indicted eight times.

James T. Metcalf, superintendent money-order system; appointed post-office inspector February 2, 1882; has been in postal service ever since; removed June 17, 1903; has been indicted once.

Daniel V. Miller, assistant attorney, Post-Office Department; appointed July 1, 1902; removed May 25, 1903; indicted once; after one mistrial was retried and acquitted.

Louis Kempner, superintendent registry system; appointed clerk in New York post-office August, 1886; removed October 21, 1903.

Charles Hedges, superintendent city free-delivery service; appointed assistant superintendent free-delivery service July 1, 1898; removed July 22, 1903.

James W. Erwin, assistant superintendent free-delivery service; appointed post-office inspector June 27, 1887; removed September 16, 1903; indicted once.

W. Scott Towers, superintendent Station C, Washington, D. C.; appointed clerk, Washington post-office, November, 1890; removed October 1, 1903; indicted three times.

Otto F. Weis, assistant superintendent registry division, New York post-office; appointed clerk, New York post-office, June, 1890; removed October 21, 1903.

T. W. McGregor, clerk, free-delivery division, in charge of supplies; appointed Post-Office Department, March 11, 1891; removed June 5, 1903; indicted twice.

C. E. Upton, clerk, free-delivery division; appointed July 1, 1900; removed June 5, 1903; indicted once.

M. W. Louis, superintendent supply division; appointed Kansas City post-office, April 17, 1897; removed October 21, 1903.

Charles B. Terry, clerk, supply division; appointed September 20, 1900; removed October 21, 1903.

As shown in Mr. Bristow's report, and as partially indicated by the actions in the several cases, these cases show widely varying degrees of culpability.

Among outsiders indictments have also been found against—

H. J. Barrett, formerly in the Post-Office Department from May 11, 1889, to September 20, 1893, and from June 1, 1897, to December 31, 1900;

George E. Green;
Diller B. and Samuel A. Groff;
William C. Long, formerly in the Post-Office Department from April 17, 1890, to August 15, 1893;
Isaac S. McGiehan;
George H. Huntington;
George E. Lorenz, formerly postmaster at Toledo, Ohio, from August 3, 1886, to July 9, 1890;
Martha J. Lorenz;
John T. Cupper;
H. C. Hallenbeck;
W. D. Doremus;
Eugene D. Scheble;
William G. Crawford, Deputy Auditor Post-Office Department from June 12, 1893, to September 15, 1897;
Maurice Runkle;
Norman R. Metcalf;
Leopold J. Stern;
Edmund H. Driggs;
George F. Miller;
Joseph M. Johns.

Several of the above have been indicted two, three, or five times each.

The three chief offenders in the Government service were Tyner, Machen, and Beavers. The friends of Tyner have advanced the theory that in his case the chief offender was really his nephew by marriage, Barrett, who was his assistant in the office for a part of the time, and that Tyner's offenses are due to his failing bodily and mental powers. The facts set forth in Mr. Bristow's report do not tend to substantiate the validity of these excuses for Tyner, while they show literally astounding misconduct in Barrett. For Machen and Beavers no excuse of any kind has been alleged. In the case of Metcalf, the superintendent of the money-order system, the most vigorous protests were at first made on his behalf by a large number of reputable citizens, and also by others who were at the time deemed reputable, but who it has since been discovered were profiting by Metcalf's misconduct. One of them has been indicted in connection with him. When these investigations were begun, some nine months ago, many of the chief offenders who have been indicted or dismissed, or both, as above enumerated, were considered to have excellent reputations. A number of the most respectable people in the land offered voluntary testimony on behalf of Mr. Tyner. So highly were Messrs. Beavers and Machen thought of by those who had been brought into close connection with them that the Congress actually provided at its last session for raising the salaries

of both, the salary in each case being increased $500, to take effect at the beginning of the fiscal year on July 1 last. By that date they were both out of office, and the Department of Justice was taking steps to have them indicted. During Machen's term of service he was twice investigated by the Congress, once by a committee of the Senate and once by a committee of the House, but cleared on each occasion. Yet at that very period, as has been shown in the present investigation, he was engaged in the corrupt business for which he has now been removed and indicted. This is no reflection upon the committees who conducted the investigation; for so skillfully had Machen concealed his wrongdoing that it was only revealed after months of laborious and exhaustive work by trained inspectors.

The details of the corruption are set forth in full in Mr. Bristow's report and need not be recapitulated by me. As regards Messrs. Beavers and Machen, the corruption took the form of bribery and blackmail in connection with the purchase of Government supplies. In the office of the Assistant Attorney-General for the Post-Office Department, under Tyner and Barrett, far greater wrong was inflicted upon the public than could be measured by a pecuniary standard, for in this office the corruption of the Government officials took the form of favoring get-rich-quick concerns and similar swindling schemes; in other words, the criminals, whom it was the sworn duty of these Government officials to prosecute, paid them for permission to fleece the public unmolested.

I heartily approve of the recommendation of Messrs. Conrad and Bonaparte that the statute of limitations be extended in the case of Government servants to a period of at least five years; for the persons who in such positions of trust engage in corrupt practices can ordinarily conceal their guilt for a longer time than is covered by the present short statute of limitations. This recommendation has been laid before the Congress in the report of the Attorney-General, and it is earnestly hoped that it will be acted upon favorably. Moreover, our experience shows that outsiders claiming political influence sometimes sell their influence to candidates for office, or in other words blackmail these candidates. There should be legislation which will permit of summary dealing with such offenders.

However, the prime need is not new legislation but the punishment of those who offend against existing laws. The Post-Office Department is making certain changes in the methods of administration, notably in the method of inspection, by which the service will be improved and the chance of corruption existing without discovery be minimized; but the only way to meet the real evil is to punish the offenders, by removal in any event, and where possible by prosecution under the criminal statutes. In any great business, public or private, wrongdoing is certain at times to occur. The way to guard against

it is rigorously to scrutinize the character of those appointed, carefully to supervise their actions after appointment, and finally, to punish with relentless severity those who go wrong. All this is being done.

The immediate reformation of the service by the turning out of the offenders is not in itself enough to meet the demands of justice. The cases against both those within and those without the Post-Office Department, who by their acts have brought themselves within the grasp of the law, will be pushed with the utmost vigor. Every effort must be made to see that both the delinquent official and the outsider who shares his guilt are punished to the limit of the law. In pursuance of this policy the individuals above enumerated have been indicted. In no case has the indictment been sought save where the officials of the Government were convinced of the man's guilt; and in every case the Government will exhaust every expedient in its power in the effort to see that justice is meted out to the offenders. Those in the public service whose duty it is must ever be vigilant in the detection of wrongdoing, fearless in its exposure, relentless in its prosecution; but in the last resort, when everything which the public official, whether legislator, judge, or executive officer, can do has been done, it remains for the jury, drawn from the people and representing the people, to do even-handed justice, shielding the innocent, but declining to be misled by any plea into refraining from punishment of the guilty.

No crime calls for sterner reprobation than the crime of the corruptionist in public life, and of the man who seeks to corrupt him. The bribe giver and the bribe taker are equally guilty. Both alike sin against the primary law of the State's safety. All questions of difference in party policy sink into insignificance when the people of this country are brought face to face with a question like this, which lies at the root of honest and decent government. On this question, and on all others like it, we can afford to have no division among good citizens. In the last resort good laws and good administration alike must rest upon the broad basis of sound public opinion. A dull public conscience, an easy-going acquiescence in corruption, infallibly means debasement in public life, and such debasement in the end means the ruin of free institutions. Self-government becomes a farce if the representatives of the people corrupt others or are themselves corrupted. Freedom is not a gift which will tarry long in the hands of the dishonest or of those so foolish or so incompetent as to tolerate dishonesty in their public servants. Under our system all power comes from the people, and all punishment rests ultimately with the people. The toleration of the wrong, not the exposure of the wrong, is the real offense.

THEODORE ROOSEVELT.

REPORT OF FOURTH ASSISTANT POSTMASTER-GENERAL J. L. BRISTOW ON THE INVESTIGATION OF CERTAIN DIVISIONS OF THE POST-OFFICE DEPARTMENT.

OFFICE OF THE FOURTH ASSISTANT POSTMASTER-GENERAL,
Washington, October 24, 1903.

SIR: As directed by you on March 7, 1903, I have endeavored to make a thorough investigation of the alleged irregularities in the following-named divisions of the Post-Office Department: The Division of Supplies, the office of the Assistant Attorney-General, the Division of Money Orders, the Division of Free Delivery, and the Division of Salaries and Allowances, and I beg to submit the following report:

DIVISION OF SUPPLIES.

In the charges affecting the division of supplies it is alleged that Michael W. Louis, superintendent, was appointed in an irregular manner; that in the awarding of contracts he has shown partiality to certain bidders; and that in the administration of his office he has favored contractors, to the great loss of the Department. (Exhibit A.)

During the progress of the investigation it was also alleged that there had been great extravagance in the purchase of manifold books used in the registry system.

APPOINTMENT OF MICHAEL W. LOUIS.

It has been stated that Louis's appointment was made in an irregular way for the purpose of giving him control of the division of supplies during the letting of contracts for the fiscal year beginning July 1, 1897.

Mr. W. A. Burwell was appointed superintendent of this division on February 4, 1896. The position is within the classified service, and it does not appear that any complaints were ever filed against him. On April 15, 1897, he was requested to resign by the First Assistant Postmaster-General, but was not accused of inefficiency or misconduct. He submitted his resignation, to take effect in thirty days (Exhibit A–1), and was given leave of absence for that period.

In relation to the appointment of Louis, I beg to submit the following letter (Exhibit A–2):

In your reply please refer to initials.
Subject: Cashier.

POST-OFFICE DEPARTMENT,
OFFICE OF THE FIRST ASSISTANT POSTMASTER-GENERAL,
SALARY AND ALLOWANCE DIVISION,
Washington, D. C., April 17, 1897.

POSTMASTER, *Kansas City, Mo.*

SIR: Certain exigencies have arisen which make it necessary to employ an expert in the Post-Office Department for a short period. As the Department has no appro-

priation available for this purpose, I have decided to create the position of cashier in the Kansas City office, at a salary of $2,000 per annum, effective this date, Saturday, April 17, 1897.

You will therefore carry upon your roster Mr. Michael W. Louis as cashier of your office, at a salary of $2,000 per annum, Mr. Louis to be assigned to work in this Department under my direction until otherwise advised.

You will forward on the 1st and 15th of each month a check to Mr. Louis to cover his semimonthly salary, accompanied by a voucher which will be returned to you for file with your pay roll in lieu of his signature upon same.

To provide for the position your clerk hire allowance has been increased to-day to $90,544.

Very respectfully,

(Signed) PERRY S. HEATH,
COL—ECF] *First Assistant Postmaster-General.*

In your reply please refer to initials and number. A. S. 140.
Subject: Appointment of Michael W. Louis.

POST-OFFICE DEPARTMENT,
OFFICE OF THE FIRST ASSISTANT POSTMASTER-GENERAL,
SALARY AND ALLOWANCE DIVISION,
Washington, D. C., April 17, 1897.

Personal.

HOMER REED, Esq.,
Postmaster, Kansas City, Mo.

SIR: As the appointment of Mr. Michael W. Louis has been fully explained to the members of the Civil Service Commission, it will not be necessary for you to make a report of the appointment to the Civil Service Commission.

Very respectfully,

(Signed) PERRY S. HEATH,
COL.] *First Assistant Postmaster-General.*

On the same day that Louis was appointed cashier in the Kansas City post-office he was assigned as acting superintendent of the division of supplies in the Department at Washington, D. C. He never visited Kansas City and never performed any work of any character in connection with the Kansas City post-office.

After Louis had been installed as acting superintendent the First Assistant Postmaster-General requested that the position of superintendent be excepted from the classified service, but the Civil Service Commission refused to recommend such exception. They did, however, consent to give a special examination for that position. This examination was held in July, and Louis was allowed a rating of 50 points because of his alleged experience, he having then been in charge of the division about three months. The examination papers can not now be found, having disappeared from the files of the Civil Service Commission (Exhibit A–3). As a result of the special rating, Louis received the highest grade of any of those examined, and was given a permanent appointment. In the meantime, however, he had been in charge of the division of supplies since April 17, and had performed all of the duties of superintendent.

This unusual proceeding in the appointment of Louis as cashier of the Kansas City post-office and his immediate assignment as acting superintendent of the division of supplies gives color to the allegation that there was some special interest in having Louis placed in charge of that division before the letting of contracts, advertised for May 6. It would have been much more creditable, at least, for Louis to have come into possession of the office in a regular manner, after he had passed the examination prescribed by the Civil Service Com-

mission, since there does not appear to have been any pressing necessity for a change of superintendent.

An advertisement was published on April 5, 1897, announcing that bids would be received at the Department until May 6 for supplies for the postal service for the fiscal year 1897–98.

CONTRACT FOR CANCELING INK.

For a number of years prior to July, 1897, the Caton Manufacturing Company, of Baltimore, of which Victor G. Bloede was president, had the contract for furnishing the Department with canceling ink. This company was a bidder at the 1897 letting and failed to secure the contract. Their bid was 20 cents per pound, but the Ault & Wiborg Company, of Cincinnati, Ohio, was given the contract at 24 cents per pound, 4 cents higher than offered by the Caton Manufacturing Company.

This led to a most vigorous complaint and protest from Bloede, who charged that he had not been fairly treated and that the contract had been given to the Ault & Wiborg Company at a much higher price than his bid because of the friendship existing between the officers of that company and the First Assistant Postmaster-General and the superintendent of the supply division. As a result of this complaint an investigation was ordered by the Postmaster-General, which was made by Inspectors John D. King and William S. McGinniss.

I carefully examined the report of Inspectors King and McGinniss and all of the exhibits submitted therewith and had the case reopened and reinvestigated by Inspectors J. R. Harrison and A. E. Furniss, whose report and all papers in connection therewith, which include the reports and exhibits of Inspectors King and McGinniss, are herewith submitted, marked "Exhibit B".

On May 3, 1897, a committee consisting of M. W. Louis (chairman), E. C. Fowler, and Clarence E. Dawson was appointed to open bids, examine samples, and award contracts for the ensuing fiscal year. The awarding of the contract for canceling ink came before this committee.

The committee does not appear to have made any tests as to the quality of the various samples of ink. The former practice of the Department had been to send samples of the ink to postmasters to be tested in their respective offices by practical experiment. This plan, however, does not seem to have been followed at this letting, and there is abundant evidence that the samples furnished by the Caton Manufacturing Company were returned to the company without having been opened (Exhibits B–2, B–5, and B–6).

Superintendent Louis states that the contract was awarded to the Ault & Wiborg Company largely upon the reputation of the firm (Exhibit B–4, questions 27 and 28). Louis was very severe in his criticism of the quality of the ink furnished by the Caton Manufacturing Company, declaring that it was practically worthless. After the committee had decided in favor of the Ault & Wiborg Company's ink, but before such awards had been approved by the Postmaster-General, Louis wrote a number of letters of commendation of the new ink that was to be furnished. On June 14 a letter to the Second Assistant Postmaster-General, bearing Louis's initials, states:

> The Department will furnish during the ensuing fiscal year ink and pads superior in every respect to such supplies furnished during the present fiscal year.

Numerous other letters of a similar tone were written.

There were 6,471 pounds of the Caton Manufacturing Company ink on hand at the close of the fiscal year ended June 30, 1897. Yet after the contract with this company had expired a further purchase of 2,555 pounds was made of the same ink which had been pronounced worthless. Louis states that this order was given by the First Assistant Postmaster-General as a matter of accommodation. If the ink was worthless and unfit for use, the purchase should not have been made. If it was satisfactory as a canceling ink, it should have been given more consideration at the letting.

The first shipment of the Ault & Wiborg Company's ink was received at the Department August 25, 1897. This ink, however, does not appear to have been satisfactory, and its inferior quality seems to have been brought to the attention of a representative of the firm by Superintendent Louis, as indicated by the following letter, written by the First Assistant Postmaster-General:

POST-OFFICE DEPARTMENT,
FIRST ASSISTANT POSTMASTER-GENERAL,
DIVISION OF POST-OFFICE SUPPLIES,
Washington, November 12, 1897.

The AULT & WIBORG COMPANY,
Cincinnati, Ohio.

GENTLEMEN: In conversation a few days ago with Mr. M. W. Louis, superintendent of the Division of Post-Office Supplies, you mentioned the fact that you were preparing an ink that would dry quickly on paper but not on the pads. If you have such an ink now on hand, you are requested to ship at once to this Office one case of same put up in half-pound cans. You will be given credit for the shipment on account of Order No. 176, the remainder of which you will hold until further directed.

Respectfully,

(Signed) PERRY S. HEATH,
First Assistant Postmaster-General.

MWL.]

On December 6 a letter initialed by Louis and signed by the First Assistant Postmaster-General, addressed to the superintendent of the railway mail service at Fort Worth, Tex., states (Exhibit A-4):

The first shipment of ink received from the manufacturer has not proved as successful as desired. When the second order was made the manufacturer set about making experiments, the result of which he claims has been to obtain a superior quality of ink for canceling purposes.

On December 10 the following letter, bearing Louis's initials, was addressed to the company:

POST-OFFICE DEPARTMENT,
FIRST ASSISTANT POSTMASTER-GENERAL,
DIVISION OF POST-OFFICE SUPPLIES,
Washington, December 10, 1897.

The AULT & WIBORG COMPANY,
Cincinnati, Ohio.

GENTLEMEN: The Department has on hand about 15,000 pounds of canceling ink, the greater portion of which is of your manufacture, the remainder of the Caton Manufacturing Company.

This ink is too sticky for the purpose for which it was intended, having been contracted for when the requirements for this article were unknown. The Department desires to know if you can take this ink and work it over to possess the qualities of the ink last ordered from you, viz., nondrying on the pad and quick drying on the envelope when stamped. Please state what your charge per pound for doing this would be, you to pay the freight and charges from Cincinnati to Washington. The packages are put up in the same manner and proportion as you have furnished them heretofore.

By giving this your early attention you will greatly oblige.

Yours, very respectfully,

(Signed) PERRY S. HEATH,
First Assistant Postmaster-General.

MWL]

Up to December 10, 20,000 pounds of the Ault & Wiborg ink had been received. It would appear, therefore, from the letter quoted above, that the Ault & Wiborg ink which had been distributed was of unsatisfactory quality.

The entire amount of ink purchased by the Department during the fiscal year 1896–97 was 21,600 pounds. Yet, when but five months of the fiscal year 1897–98 had expired, there had been purchased from the Ault & Wiborg Company 20,000 pounds, which does not seem to have been satisfactory; and Louis, in his letter of December 10, inquires of the company what it will charge for reworking its own ink so that it will be fit for use, ink which had been purchased by the Department at an excessive price because of its supposed superior quality.

INK DESTROYED.

A part of the ink purchased by the Department during the fiscal year 1897–98 appears to have been destroyed by burning under the boilers of the building in which the supply division is located and by carting to the city dump on M street. A large amount of ink was burned in the furnaces until the engineer complained that it was injuring the boilers and refused to permit any more to be burned. It was then that a large quantity was carted out to the dump; and unopened cans, not only of the Caton Manufacturing Company's ink, but of the Ault & Wiborg ink, were picked up by negroes and by representatives of the competing firms who had been disappointed in the letting. This appears clearly established in Exhibits B–7 and B–8.

Louis states that ink so destroyed or thrown away was that which had been opened and found to be useless; but this is not borne out by the testimony, as a large number of unopened cans of the Ault & Wiborg ink were found at the dump, and others were broken open at the supply division and contents poured into barrels. Quantities of the Caton Manufacturing Company's ink also were destroyed in the same manner. In this connection I desire to invite your attention to the statements of George O. Preston, Joseph E. Graves, and Joseph A. Bogan (Exhibit B–9).

Preston says that he received orders from Louis to destroy a large quantity of ink that was on hand, a considerable portion of which was in unopened cans. Joseph A. Bogan and Joseph E. Graves state that they were present and heard Louis give such orders to Preston. Graves stated to the inspectors that he was instructed to destroy a quantity of ink, and that he complied with the instructions by opening the cans and pouring the ink into a barrel; that Louis ordered him, while engaged on the work, to use a hatchet in opening the cans, so as to expedite the matter. Graves further says that a portion of the unopened ink so destroyed was the Ault & Wiborg Company's ink.

This wanton destruction of ink that had been paid for by the Department as "superior" ink shows a reckless and almost criminal disregard for the interests of the Government.

Louis asserts that Preston is unfriendly to him and made such statements from improper motives. Preston, however, is corroborated by Graves and Bogan, and there is no evidence other than Louis's denial to indicate that they have in any way misrepresented the facts.

During the fiscal year ended June 30, 1898, 59,948 pounds of ink were purchased from Ault & Wiborg Company, and 2,555 pounds

from the Caton Manufacturing Company; and at the beginning of the fiscal year there were 6,471 pounds on hand. Deduct from this 10,000 pounds purchased from Ault & Wiborg, but not delivered until after the beginning of the next fiscal year, 7,956 pounds, the balance on hand June 30, 1898, and 51,018 pounds remain as the amount to be accounted for during the fiscal year, almost two and a half times as much as was consumed during the preceding fiscal year.

The cost of canceling ink for the preceding year was $4,302.65; for the year under consideration it was $14,387.52, leaving a net excess of cost of canceling ink for the fiscal year ended June 30, 1898, over that ended June 30, 1897, of $10,084.87. Louis claims that "the excess of expenditure was due to the necessity of reequipping the entire service with the new and 'superior' ink;" but there appears to be no evidence that the ink was in any way superior to that furnished by the Caton Manufacturing Company. And the above statement, therefore, seems to be more of an excuse than a reason for this lavish expenditure.

There also appear to have been many excessive and unnecessary shipments of ink to various post-offices. To illustrate, there were shipped to—

	Pounds.
Bristol, Tenn.:	
Fiscal year ended June 30, 1896	8
Fiscal year ended June 30, 1897	4
Fiscal year ended June 30, 1898	20
Carthage, Mo.:	
Fiscal year ended June 30, 1897	4
Fiscal year ended June 30, 1898	26
Greensboro, N. C.:	
Fiscal year ended June 30, 1896	8
Fiscal year ended June 30, 1897	8
Fiscal year ended June 30, 1898	44

Such shipments indicate either a deliberate purpose to dispose of an excessive quantity of ink or an utter incapacity in administration.

On July 2, 1898, a more orderly way of destroying the ink was adopted. Louis on that date addressed a letter to the chief clerk of the Department, requesting the appointment of a committee to dispose of a quantity of ink "condemned by postmasters and returned to the Department. This ink is considered absolutely worthless." And again, on October 5, 1898, he addressed the following letter to the First Assistant Postmaster-General:

> I have the honor to report that during the past three months a large number of cans of canceling ink, condemned and returned by postmasters to the Division of Post-Office Supplies, has accumulated and is occupying much-needed space. I would respectfully request that you appoint a committee to dispose of this ink in such manner as they may see fit to recommend.

As a result of this letter, on October 10, George M. Allen, D. P. Leibhardt, and J. H. Robinson were appointed a committee for that purpose, who recommeded the destruction of the ink, which recommendation was approved by Acting Postmaster-General Heath. A large part of this ink was of the Ault & Wiborg make, for which the Department had paid an excessive price because of its alleged "superior" quality.

USE OF PENALTY LABELS.

Large quantities of unsatisfactory Ault & Wiborg ink were returned to the company by registered mail, free of charge, for reworking.

Penalty labels also were sent to the company so that it could reship the ink to the Department without cost. This action seems to have been unprecedented, and, as far as can be ascertained, was a favor extended to this company only. The Caton Manufacturing Company was required to send men to Washington at its own expense (Exhibit B–4) for the purpose of cleaning and resealing its leaky cans, and there is no reason why Ault & Wiborg should not have been required to do the same, or, if their ink was returned to them, it should have been at their expense. In this connection attention is invited to the following extracts from letters addressed to the Ault & Wiborg Company, January 4 and 8, 1898, bearing Louis's initials, and signed by the First Assistant Postmaster-General (Exhibit A–5):

I wrote you yesterday regarding empty cans and boxes for the ink that had leaked and made it impossible for the Department to ship it to postmasters. I find that it will be impossible for this office to undertake to put this ink in shape. The boxes are in such a condition that they can not be handled, and have therefore been thrown away. I will ship the cans to you by mail, so that you can replace or refill them in order that they may be transported safely from here. I will also send you franks, under which you can send packages of any size by mail to this Department, thus saving to you the freight or express charges which otherwise would be incurred in returning this ink. Will advise you by letter as soon as the shipment is made.

Referring to my former communication concerning leakage caused by a number of the boxes having been broken when received, you are informed that I have this day forwarded to you by mail three cases, containing 460 half-pound cans, which were received in bad condition. In replacing this shortage it will not be necessary to furnish the ink in half-pound cans, as the Department will be satisfied to receive 230 pounds of ink put up in sizes most convenient to yourselves. I inclose herewith free penalty labels, which you can use in sending the ink to this office. If more labels are needed, please inform me.

The superintendent of mails at New York City, on May 26, 1898, and again on July 11, 1898, complained of the character of the Ault & Wiborg ink (Exhibit B–16). As a result of this complaint Ault & Wiborg ink, style No. 3, was ordered, leaving on hand, however, 1,000 pounds of the original shipment of the Ault & Wiborg ink. In connection with the exchange of this useless ink I submit the following letter:

POST-OFFICE DEPARTMENT,
FIRST ASSISTANT POSTMASTER-GENERAL,
DIVISION OF POST-OFFICE SUPPLIES,
Washington, April 13, 1900.

THE AULT & WIBORG COMPANY,
Cincinnati, Ohio.

GENTLEMEN: The following is a copy of a letter received from the postmaster at New York, N. Y.:

"I have to invite your attention to the fact that 1,000 pounds of Ault & Wiborg canceling ink, which was condemned some years ago, is still at this office, and to request that you advise me as to what disposition shall be made of same, as it occupies space which is very much needed."

This ink is from the first lot furnished by you, and the Department desires to know if you will kindly exchange it for a like quantity of the kind now being furnished, namely, "The Ault & Wiborg No. 3." If this can be done the 1,000 pounds will be forwarded by mail from the New York office, and that with which you replace it can be delivered to the postmaster at your city, so that there will be no expense for transportation. Your compliance with this request will be appreciated.

Respectfully,

(Signed) PERRY S. HEATH,
First Assistant Postmaster-General.

WLKB]

Even ink No. 3, however, which seems to have been an improvement on inks Nos. 1 and 2, formerly furnished, was not entirely satis-

factory, as shown by the following letters selected from the numerous complaints on file in the supply division (Exhibit B–15):

JEPTHA, GA., *June 20, 1901.*

In regard to the Ault & Wiborg ink No. 3, I have tried that ink and it don't give satisfaction. It is so gummy that you can't keep the type clean.

OAK PLAIN, TENN., *August 31, 1901.*

The canceling ink of Ault & Wiborg No. 3 we have I pronounce a failure. It clogs, glazes over, and acts more like paint than ink; hence poor impressions. If you have an ink that is any good please send it and oblige.

TRILLA, ILL., *September 3, 1901.*

I received the ink. This Ault & Wiborg ink No. 3 is no good. It soon hardens the pad and is too sticky. I think they have too much glue in it.

TULIP, MO., *September 9, 1901.*

We think the fault is in the ink; it is too thick and gummy.

TEXAS CITY, ILL., *September 9, 1901.*

My greatest trouble in getting clear impressions is in the ink. It seems to be too thick. I sometimes put some coal oil on the pad, but it doesn't seem to do much good. My pad has also become more or less glazed on top.

PRICE, MISS., *October 1, 1901.*

The inferior stamping is the fault of the ink. It is more like train oil than anything else. Only one application will make the ink pad as hard as wood.

LETTING FOR THE FISCAL YEAR 1898–99.

The committee on awards for the fiscal year 1898–99 was composed of M. W. Louis, W. M. Mooney, and L. S. Elmer. Mooney seems to have been on friendly terms with Louis up to the time of this letting. He was made chairman of the committee at Louis's suggestion. Soon after the consideration of bids began, a difference arose between Louis and Elmer in regard to the contracts for twine and ink. Mooney supported Elmer's views of the matter, and as a result there was continual friction in the committee. Mooney and Elmer state (Exhibits B–10 and B–11) that Louis was apparently anxious that the Ault & Wiborg Company should again be awarded the contract for ink, and the Ault Wooden Ware Company of Cincinnati, Ohio, should be given the contract for twine; and that they were not willing to agree to this unless it should appear after a fair test of the samples that such companies were entitled to the contract on the merits of their goods.

Mooney and Elmer proposed to submit samples of ink to a number of post-offices throughout the country for the purpose of testing its qualities. This proposition was strenuously opposed by Louis. The second proposition of Mooney and Elmer was that the different samples should be submitted to the Washington City post-office for testing; and to this Louis objected. Finally it was agreed that the inks should be tested in the Supply Division. Fifteen samples were submitted by the various bidders. A key to these samples was constructed by Warren Dent, a colored messenger of the Supply Division, who was the only person supposed to have any knowledge of the key; but during the progress of the letting it appears that W. C. Long, a bidder on other articles, secured a copy of the key and handed it to Elmer. It further appears that after knowledge of the key there was no difficulty in determining to whom the various samples belonged. Mooney and Elmer state that they had no knowledge of the key until

it was presented to them by Long. Mooney says that First Assistant Postmaster-General Heath was in the room several times where the committee met and took quite an interest in the work of the committee. Louis states that he never saw the samples nor the key during the letting, but that Mooney was in the room where the samples were kept. In relation to this, Dent, the messenger, says (Exhibit B–12):

The samples were placed in the bottom part of a filing case in the room which was occupied by the award committee, and the room was locked and the key in my custody. Each can of ink bore the label of the manufacturer, and also the letter which I assigned to it. When Mr. Anderson tested the inks, I furnished him with ink. I was very careful not to disclose to him, or to anyone else, the name of the manufacturers of the various samples. After the tests had proceeded for some days and several of the samples had been found unfit for use, Mr. Louis came to me and requested me to accompany him to the room in which the samples were locked. When we reached the room, he asked me where I kept the samples of ink. When I explained that they were in the closet he instructed me to get them out, which I did. He then examined several of the cans and instructed me to return them to the closet. Mr. Louis was the only member of the award committee who at any time asked me about the samples of ink. On one occasion Mr. Mooney was in the room. He sat at a table writing letters, but I am confident that he did not see the samples of ink. As a matter of fact, he did not know where the samples of ink were kept.

Upon inquiry as to why Dent was given custody of the key to these samples, Louis, in a statement (Exhibit B–13) says that he had found Dent to be "absolutely reliable."

The fact that knowledge of the key was secured by outside parties indicates that the whole system of testing was a farce.

The committee was unable to agree upon a recommendation for ink, and another committee was appointed. The second committee consisted of Messrs. Alexander Grant, George W. Beavers, and C. E. Dawson. This committee was appointed June 27, 1898. Its final report on ink was not filed until March 15, 1899, though it appears to have been written September 3, 1898. Only the signatures of Dawson and Beavers appear on the report. Grant says he signed a report with a recommendation, but that part which he signed appears to have been cut out from the report and a sheet substituted, signed only by Beavers and Dawson, who made the following recommendation (Exhibit A–6):

After careful consideration and in view of the decision of the Acting Assistant Attorney-General that the Postmaster-General is not required to advertise for canceling ink, we respectfully recommend the rejection of all bids therefor, and that the supply as needed from time to time be purchased in open market, with sufficient competition to insure the best ink at the lowest price, and that the firm from which the ink may be purchased be required to furnish the same in lots of 5,000 pounds, or more, if desired by the Department, to be put up in such quantities as the Department may direct.

The opinion of Acting Assistant Attorney-General Barrett (Exhibit B–14) was submitted on December 20, 1898, in which it was held that the Postmaster-General was not required by the law to purchase canceling ink by contract, but could buy the same in the open market. As a result of the disagreement of the first committee, and upon the recommendation of Beavers and Dawson, based upon the opinion of Barrett, Louis was permitted, from March, 1899, until the beginning of the fiscal year 1902–3, to buy canceling ink from the Ault & Wiborg Company in the open market at 30 cents per pound, 6 cents more than their last competitive bid, 10 cents more than the Department paid before Louis became superintendent of the division, and from 4 to 9 cents higher than the present price.

INKING PADS.

In the letting of the contract for inking pads for the fiscal year beginning July 1, 1898, there were seven bidders. The bids of Herman Baumgarten and W. C. Long impressed the committee most favorably. Baumgarten submitted three samples of different quality, at 12, 14, and 16 cents per pad. Long submitted five samples, the cheapest being 15 cents per pad. The committee rejected the 12-cent sample of Baumgarten's because it was of an inferior quality and decided in favor of the 14-cent pad, the next lowest in price.

At the next meeting of the committee Louis informed Mooney and Elmer that Herman Baumgarten had called upon him and stated that he could not recommend the 14-cent pad, as it was of poor quality. On this information the committee awarded the contract to W. C. Long, of Washington, D. C., at 15 cents per pad. Baumgarten declared that he had no such conversation with Louis, and that his 14-cent pad was a better pad than Long furnished (Exhibit B–18).

Louis admits that he made such statements to the committee, and as a result the contract was awarded to Long, who says (Exhibit B–17):

> I had a talk with him (Louis) on Decoration Day in my office, No. 1314 F street. During this conversation he told me the pad contract had been given to Mr. Baumgarten, but that he would give me an order for 1,000 pads at any time I wanted it. The next day at noon he came back to my office and told me that he had had a talk with Mr. Baumgarten and found that his pads did not come up to what he expected, and that he had asked the committee to set aside that award and give the pad contract to me, which was done, at 15 cents per pad.

Long was not a manufacturer of pads, so he bought the pads which he furnished the Department from Baumgarten for 12½ cents each. Baumgarten says the pads he furnished Long were not as good a quality as those he offered for 14 cents.

There were 65,000 pads bought during the year, upon which Long received a net profit of $1,625, and the Department was furnished an inferior grade of goods. This loss seems to be chargeable directly to the false statements of Louis.

METHOD OF ISSUING INK AND PADS.

The method of issuing canceling ink and pads merits consideration.

Numerous complaints are received at the Department from the Commissioner of Pensions relative to the poor impression of postmarking stamps upon pension vouchers. As a result of these complaints, a circular was prepared for the instruction of postmasters at fourth-class offices. These circulars were distributed to the various pension agents, who, in turn, forwarded them to such postmasters as failed to exercise proper care in postmarking vouchers. The circular instructs the postmaster to affix the imprint of his postmarking stamp on the same and return it to the First Assistant Postmaster-General. When this circular reaches the supply division, the impression of the postmarking stamp thereon is used as a basis to determine the necessity for furnishing canceling ink or pad. The inspectors counted 6,000 of these circulars, and found that 50 per cent of them had been used as orders for new ink and pads.

That no judgment was used in forwarding supplies in this manner is demonstrated by Exhibit B–19, which consists of 150 of these circulars upon which ink and pads were sent out, and with few exceptions the

postmarks upon the circulars are perfectly clear and legible, showing the absurdity of the claim that new ink and pads were necessary.

In some instances the circulars were not postmarked at all, yet a new outfit of ink and pad was furnished the postmaster. This unwarranted and wasteful method of furnishing supplies resulted, in many instances, in duplication, as shown by the following letters on file in the supply division (Exhibit B–20):

COLUMBIA, OKLA., *March 17, 1903.*

I have now on hand three cans of canceling ink, enough to last this office for four years. Also have two pads that have never been used. I have never ordered any of them.

BLOCK, KANS., *March 27, 1903.*

The last inking pads and ink I did not need. Just got a supply.

BOLARVILLE, OHIO, *April 1, 1903.*

You sent me two pads and two cans of ink. Will I keep last pad and ink or return it? I hold same for reply.

WATT, OHIO, *April 6, 1903.*

This is the second time you sent me a new pad and ink in the last thirty days. I did not order the last, but I will take care of it until I do need it.

CEMENT CITY, MICH., *April 11, 1903.*

Through some mistake you have sent this office the same supplies twice. I have no need of so many. Shall I return them to the Department?

Numerous other letters of a similar character have been received.

When the edition of the Postal Laws and Regulations of 1902 was mailed, a receipt, properly postmarked, was required from each postmaster. These receipts were used for the same purpose as the pension circulars, and quantities of ink and pads were issued on the appearance of the postmark. Such business methods indicate either an utter lack of capacity for administration, or a willful and deliberate purpose to increase the consumption of ink and pads for the benefit of the contractors.

WRAPPING TWINE.

The committee on awards for the fiscal year beginning July 1, 1898, also disagreed as to the awarding of the contract for twine. There were five bidders for twine: William A. Wheeler, jr., at 6.67 cents per pound; Henry L. Little, at 6.9 cents per pound; M. D. Helm, at 7 cents; the Ault Wooden Ware Company, at 7.33 cents, and the Manhattan Supply Company, at 7.98 cents.

Wheeler's twine was rejected by the full committee because it was deficient in tensile strength and was rough and uneven in appearance. The bid of Little (the next lowest) was set aside because the sample was short in yardage. The three bidders whose samples met the requirements of the specifications were M. D. Helm, the Ault Wooden Ware Company, and the Manhattan Supply Company. At the suggestion of Louis, letters were written to these three bidders to ascertain from what source they expected to secure their twine.

No answer was received from Helm; the Manhattan Supply Company declined to give the information, and the Ault Wooden Ware Company answered that it had an arrangement with the same mills which were then supplying the Department. Because Helm and the Manhattan Supply Company refused to state where they expected to secure the twine, it seems that the committee decided in favor of the Ault

Wooden Ware Company. Mooney states, however, that before the award was actually made he was approached by J. C. Morrow, president of the Wilmington Mills, who said that he understood the Little bid, the second lowest, had been rejected, and asked why the committee had taken such action. He was informed that the Little twine was short in yardage. Morrow then stated that the sample was from his mills and it was not short in yardage; that he would not be so foolish as to furnish a short sample, and that a fair test would prove his assertion. As a result of this conversation, Mooney and Elmer agreed that another test should be made; to this Louis strenuously objected.

During the first test Louis fed the twine onto the measuring reel. At the second test the reel was fed by Preston. The second test satisfied Mooney and Elmer that the Little twine was above the specifications in yardage, and that the contention of Morrow was well founded, and they therefore made a majority report in favor of accepting Little's bid. Louis, as a counteraction, then submitted a minority report in favor of the Wheeler twine, a twine which the committee had unanimously rejected because it was inferior in tensile strength. Mooney and Preston state that Louis wanted to give the contract to the Ault Wooden Ware Company, but when he found that the other two members of the committee would not agree to that he recommended the Wheeler twine, which they had all agreed was not suitable.

No action was taken on the report of this committee, and it was discharged. The matter was then referred to another committee consisting of Alexander Grant, George W. Beavers, and C. E. Dawson, who, after considering the whole matter, recommended that no award be made, as twine could be bought in the open market at 7 cents a pound, which was the bid of Helm, the next lowest bidder to Little (Exhibit A–7).

The Manhattan Supply Company furnished the twine during the fiscal year ended June 30, 1898. This company acted as the representative of the twine mills, for which service it received a commission of 2 per cent. The Department requires about 30,000 pounds of twine a week; and no mill is willing to take the entire contract and assume the risks of fire, strikes, and other casualties incident to the business. In 1897 the Manhattan Supply Company made the contract with the Department to furnish it twine, but had an agreement with the Schlichter Mills, of Philadelphia, Pa., and the Wilmington Mills, of Wilmington, Del., that each should furnish one-half of the twine.

When bids for the fiscal year beginning July 1, 1898, were called for a proposition was made to the owners of the two mills by Ault, of the Ault Wooden Ware Company, to enter into a contract with them to furnish him twine for the use of the Post-Office Department during the ensuing fiscal year. The mill owners, J. C. Morrow, of the Wilmington Mills, and Isaac Schlichter, of the Philadelphia Mills, both state (Exhibits B–22 and B–23) that they were given to understand by Ault that he could obtain the contract through the influence of Louis, superintendent of the supply division. Morrow and Schlichter declare they then entered into an agreement with Ault to furnish him twine at 6 cents per pound, f. o. b. Philadelphia, Ault to make his own price to the Department. Morrow in his statement says:

> My distinct understanding from Mr. Ault was that he was to secure the twine contract through the influence of Mr. Louis, chief of the Division of Post-Office Supplies, and that Mr. Louis was to receive a money consideration for exerting his influence in behalf of Mr. Ault.

Morrow is now president of a large rug factory in Vineland, N. J., and is no longer interested in the twine business. Schlichter, when asked if Ault mentioned the name of the person in the Supply Division who was to give him the contract, said:

No, but I did—Mr. Louis, superintendent Supply Division, Post-Office Department, and in which he (Ault) evidently acquiesced.

Ault admits that he made the contract for twine as stated by Morrow and Schlichter, but denies that he told them he had arranged to secure the contract through the influence of Louis (Exhibit B–24). Louis denounces the statements of Morrow and Schlichter as false. Schlichter states that when he visited Washington to ascertain what was to be done about the contract, Louis approached him and stated that the whole thing had exploded, which he understood to mean that Louis was unable to give the contract to Ault as had been arranged.

It is difficult to determine the truth of assertions made by interested parties upon matters of this kind. Schlichter and Morrow seem to be reputable business men. Their statements are in a way corroborated by those of Mooney and Elmer. Whether Louis had a corrupt agreement with Ault can not be conclusively determined, but there appears to be no doubt that he was anxious that Ault should secure the contract for twine.

On account of the disagreement of this committee and because of the recommendation of the subsequent committee, jute twine for the fiscal year beginning July 1, 1898, was purchased in the open market from M. D. Helm, of New York, who also secured the contract for the following year and has held it continuously since. His bid for that fiscal year was 6.65 cents per pound; for 1899–1900, 6.97 cents; for 1900–1901, 10.95 cents; for 1901–2, 7.45 cents; for 1902–3, 8.72 cents.

It is charged that an unnecessary amount of twine was bought during the closing months of the fiscal year ended June 30, 1901, when the price was 10.95 cents per pound, and that no effort was made to curtail the requisitions until the contract for the ensuing fiscal year became effective, at which time the price dropped to 7.45 cents per pound (Exhibit B–26).

On March 2, 1901, the balance of twine on hand was 7,802 pounds. This balance was gradually increased until June 1, 1901, when it amounted to 102,392 pounds. This was the largest balance on hand at any one time during the period that Louis had been in charge of the supply division. An employee of the division, Charles F. Granholm, who was acquainted with First Assistant Postmaster-General Johnson, states (Exhibit B–25) that he advised Mr. Johnson there was a scheme on hand to purchase a large amount of twine and carry it over to the next fiscal year. Mr. Johnson, therefore, called for an estimate of the amount of twine necessary to supply the Department during the remainder of the fiscal year. Upon receiving this estimate he instructed Louis to reduce the requisitions to the lowest possible number.

After that the balance of twine on hand decreased, but at the close of the fiscal year there were still 63,875 pounds on hand. Louis contends that this amount was necessary in order to run the service during the first two weeks of the new year. This contention, however, does not appear to be well founded, because the balance on hand at the beginning of the fiscal year 1898–99 was but 25,655 pounds; and of 1899–1900, 26,505 pounds; and 1900–1901, 31,847 pounds, and no

inconvenience to the service resulted. Contractors are always notified that they must have twine for shipment July 1; and furthermore, the same contractor was to furnish the supply for the incoming year, so that there could be no more danger of a shortage of twine on the 1st of July than at any other time, the only difference being that the price dropped about 3 cents a pound on that date.

The price for the fiscal year 1899–1900 was 6.97 cents per pound. This price was increased to 10.95 cents for the following year, and during the first week of that year 58,904 pounds of twine were purchased, which cost the Department $2,503.42 more than it would have cost had it been ordered the previous week.

If 31,847 pounds of twine were sufficient to have on hand at the close of the fiscal year when the price of twine was advancing about 4 cents per pound, I can see no reason why it should not have been enough when the price was dropping more than 3 cents a pound. And there is reason to believe that if First Assistant Postmaster-General Johnson had not given his personal attention to the requisitions for twine the amount on hand at the close of the fiscal year 1900–1901 would have been greater than it was.

Complaints also have been made as to the printing of facing clips and other incidental supplies needed by the Department. It is unnecessary to go into the details of all these minor transactions. They are clearly and minutely set forth in the report of Inspectors Harrison and Furniss. It is sufficient, perhaps, to say that the same methods of administration as indicated heretofore have prevailed throughout the entire division.

CONCLUSION.

From the foregoing it appears that the appointment of M. W. Louis as cashier of the Kansas City post-office, when it was not intended that he should perform any service whatever in that office, was irregular, and that his assignment as acting superintendent of the Division of Supplies while carried on the rolls and paid as an employee of the Kansas City post-office was unlawful (Exhibit A–8).

That he influenced the awarding of the contract for canceling ink for the fiscal year 1897–98 to the Ault & Wiborg Company, of Cincinnati, at a higher rate than offered by other bidders, not because of the merits of the ink, but as a favor to that company for reasons not fully explained.

That in the administration of his office he has shown undue friendship for these contractors by improperly granting them the use of penalty labels and by paying them for worthless ink that should have been returned.

That he has been extravagant and wasteful in furnishing canceling ink and pads to postmasters when they had not been ordered and were not needed.

That in the burning and throwing away of ink he was guilty of reckless and almost criminal disregard for the interests of the Government.

That by deception, in the letting for the fiscal year 1898–99, he threw the contract for pads to W. C. Long, at an increased price over other responsible bidders, to the great loss of the Department.

That during the fiscal years 1899–1900, 1900–1901, and 1901–2, he bought from the Ault & Wiborg Company, of Cincinnati, canceling

ink, practically without competition, and paid an extravagant price therefor.

That in the purchase of a large amount of twine at the close of the fiscal year 1900–1901 he acted in the interests of the contractors and against the interests of the Department.

That his administration of the division shows incompetency and extravagance.

I, therefore, recommend that he be summarily removed from office.

[Louis was removed October 21, 1903.]

PURCHASE OF MANIFOLD BOOKS.

During the progress of the investigation attention was called to the large expenditures for manifold books. This matter was made a subject of special investigation and assigned to Inspectors Harrison and Furniss. Their report is submitted herewith, marked "Exhibit C".

Until recently the use of manifold books for registry receipts was limited to post-offices registering 2,000 or more pieces of mail per annum. These books consisted of duplicate leaves containing eight receipts each. The duplicate receipt was made by placing a carbon leaf between the two pages. The original receipt when written was torn out and handed to the sender of the letter or package, and the carbon copy retained as a record in the office. This system was entirely satisfactory, except as to carrier registration books which were adopted in 1900. The carriers complained of inconvenience in handling the carbon sheets while registering letters on their routes.

Early in the year 1901, George L. Morton, of Wilmington, N. C., sales agent for the Galena Signal Oil Company, of Franklin, Pa., submitted samples of a metallic duplicating paper to Superintendent Louis, of the supply division, and was by him referred to W. H. Landvoigt, superintendent of the registry division of the Third Assistant Postmaster-General's Office.

This metallic duplicating paper is made by a patented process controlled by the General Manifold Company, of Franklin, Pa., which company is composed very largely of the stockholders of the Galena Signal Oil Company. Mr. Morton represented both institutions. Landvoigt at once became interested in the paper. He thought it furnished an opportunity for obtaining a suitable registration book for the carriers. Morton had sample books made and these were tested by officials of the Railway Mail Service, of the Washington post-office, and others, all of whom Landvoigt says (Exhibit C–1) unhesitatingly pronounced them a success.

Representatives of the manifold company claimed that their books could be furnished cheaper than those with interleaving carbon sheets then in use, and on September 28, 1901, submitted an estimate of prices on carrier receipt books and a small window registry book (Exhibit D). At that time, however, the Department was unable to purchase any large number of these manifold books because there was no appropriation available for that purpose. The law provided that all printing and binding, except that of an urgent nature, should be done at the Government Printing Office, and the Public Printer was not authorized to purchase finished books.

The Third Assistant Postmaster-General suggested to the representatives of the manifold company that they quote a price on the patent

duplicating paper, that the Public Printer could then, under the provisions of the appropriation act, buy the paper and make the books. This they declined to do.

There was an appropriation of $20,000 for the office of the Third Assistant Postmaster-General, a part of which could be used for the purchase of these books (Exhibit D–8). There also was an appropriation of $30,000 for the office of the First Assistant Postmaster-General for printing facing slips, card-slide labels, and books and blanks of an urgent nature, a part of which might be used for the purchase of these books. It appears that during the fiscal year 1901–2, $2,675.50 of the miscellaneous appropriation for the Third Assistant Postmaster-General's office was expended for these books, and $4,469.50 from the appropriation for facing slips, etc., for the First Assistant's Office.

Under the legislative restriction which prevented the Public Printer from buying finished books it was impossible to place the books made by the General Manifold Company in general use in the registry system. It became necessary, therefore, either for the manifold company to sell the paper to the Public Printer, from which he could make the books, or that the law should be changed so as to authorize the Public Printer to buy complete books. The representatives of the company declined to sell the paper, but undertook to have the law changed (Exhibit C–14).

Morton states (Exhibit C–14) that he appeared before the House Committee on the Post-Office and Post-Roads and presented the merits of his books; that the chairman of the committee was much impressed with the books and sent for Mr. Louis, of the supply division, and discussed with him the feasibility of their adoption. Morton further states that Congressional friends of his secured the insertion in the sundry civil bill for the fiscal year 1902–3 of the following provision:

> The Public Printer is authorized hereafter to procure and supply, on the requisition of the head of any Executive Department or other Government establishment, complete manifold blanks, books, and forms required in duplicating processes; * * * and to charge such supplies to the allotment for printing and binding of the Department or Government establishment requiring the same.

The insertion of this provision in the sundry civil bill was much more favorable to the company than to have it incorporated in the post-office bill, because it thereby became applicable to all the Departments, while if it had been embodied in the post-office bill it might have applied only to the Post-Office Department.

It appears that the use of this paper was a subject of discussion in the subcommittee of the House Committee on the Post-Office and Post-Roads. Representatives of the company had made a favorable impression on some members of the committee (Exhibits B–4 and D–6). Superintendent Louis states that Mr. Loud personally handed him a sample of the window registration book, and stated that he thought it was a good thing and asked him if he had authority to buy it with any money appropriated for the Post-Office Department.

After July 1, 1902, when the appropriation containing the proviso heretofore quoted became effective, the books were placed in general use throughout the registry service.

These books were introduced upon the theory that they were more convenient and cheaper than the old form with interleaving carbon sheets. In this connection a letter is submitted, signed by the Third

Assistant Postmaster-General, initialed by Landvoigt, dated January 30, 1902 (Exhibit D–1).

Based upon the estimates submitted by the manifold company September 28, 1901, the assumption that these books would be cheaper was well founded. These estimates, however, referred only to carrier registration books and a small window registration book that was never used. But there does not seem to have been any schedule of prices agreed upon for the other books used in the service, of which there are 14 or more varieties.

That the books were not cheaper is clearly demonstrated by the following figures. The purchases from the General Manifold Company for the fiscal year 1902–3 are here given:

From the appropriation for printing and binding	$59,514.25
From the appropriation for printing facing slips, etc	14,960.52
From the general appropriation of the Third Assistant Postmaster-General's Office	10,294.08
Total purchase of manifold books from the General Manifold Company for the fiscal year	84,768.85
Total cost for manifold books for the entire registry service for the fiscal year 1900–1901 when made by the Public Printer	41,499.24
Excess of cost of manifold books for the fiscal year 1902–3 when purchased from the General Manifold Company	43,269.61

It will be observed that the adoption of the Manifold Company's books has more than doubled the cost of these supplies over the cost of the old books purchased from the Public Printer.

It has been suggested that since most of the service has been supplied with manifold books the consumption will not be so great in the future as it was in the first year of their introduction; but in this connection it should be borne in mind that there were a large number of the old-style books on hand that were used during the fiscal year, and the probability is that the consumption of these books will increase if the present method of distribution continues.

As heretofore stated, there was no schedule of prices agreed upon for the books when adopted. However, the price first charged by the manifold company did not materially differ from that charged by the Public Printer for the old-style books; but there was a rapid advance in prices soon after the books became generally used. The erratic price of these duplicating books is an interesting study. To illustrate, take the following orders for Form 1508, Through Registry Pouch Bill Book:

Date of order.	Number of books.	For post-office at—	Cost.
October 9, 1902	25	Atlanta, Ga	$33.00
October 29, 1902	25	Detroit, Mich	54.73
November 15, 1902	25	Ogden, Utah	57.85
July 16, 1902	50	Buffalo, N. Y	60.50
October 20, 1902	50	Pittsburg, Pa	64.63
November 26, 1902	50	....do	93.68
October 13, 1902	100	Boston, Mass	126.50
January 7, 1903	100	San Francisco, Cal	162.69
April 18, 1903	100	Boston, Mass	165.00
September 13, 1902	200	Washington, D. C	247.50
December 30, 1902	200	Chicago, Ill	321.97
January 20, 1903	200	Washington, D. C	302.28

These books were identical except as to name of the office. Take Form 1549, window registration books:

Date of order.	Number of books.	For post-office at—	Cost.
August 26, 1902	25	Tacoma, Wash.	$35.75
October 9, 1902	25	Kansas City, Mo.	38.50
November 17, 1902	25	Newark, N. J	49.50
October 9, 1902	50	Hartford, Conn.	75.63
November 11, 1902	50	Pittsburg, Pa	93.41
February 14, 1903	50	Baltimore, Md.	88.00

For further details as to the remarkable advances made in the prices of these books after the Government had adopted them special attention is invited to Exhibits B, C, and D–7.

At first there was no great difference between the price of the old-style books with interleaving carbon sheets and the metallic duplicating manifold books; but the advanced price made the patent book much more expensive. To illustrate:

25 volumes of the old window manifold registration books, 2,000 receipts each, ordered from the Public Printer, June 19, 1902, for Atlantic City, N. J., cost $41.25

25 volumes of the same form, with the exception that the books contained but 1,000 receipts, half the number of those furnished by the Government Printer, ordered from the General Manifold Company, November 17, 1902, for Newark, N. J., cost 49.50

or $8.25 more than the old style book, which contained double the number of receipts. In other words, the Public Printer charged $41.25 for 50,000 receipts and the General Manifold Company, $49.50 for 25,000 receipts.

No one will admit responsibility for this remarkable increase in the price of the books. Officers of the bureau of the Third Assistant Postmaster-General declare that they are not responsible; that they simply passed upon the feasibility of their use, the price being wholly for the supply division to determine; that they had supposed the books were costing less than the old books. Their claim seems to be well founded, inasmuch as the appropriation from which these expenditures were paid is controlled by the supply division. Superintendent Louis states that he is not responsible for the prices of the books; that they were adopted at the request of the Third Assistant's office; that he was simply a medium through which they were ordered from the Public Printer, and that the question of price is for the Public Printer to determine.

The Public Printer declares (Exhibit B–29) that he is not responsible for the price of the books any more than the cost of any other supplies that are ordered of him by the Post-Office Department; that no requisitions were filled by him until the estimate as to cost was approved by the superintendent of the supply division.

The weight of evidence indicates that the responsibility is on the superintendent of the supply division. The expenditure is paid from an appropriation under his control; and his approval of the estimate is required before the supplies are ordered by the Public Printer. The Public Printer charges a commission of 10 per cent for ordering these books. Louis claims that such commission is paid him for looking after the business, passing upon the merits of the work, the rea-

sonableness of the prices, etc. The Public Printer states (Exhibit D–2) that this 10 per cent is an arbitrary charge made on all supplies ordered through him and is for the purpose of covering the clerical expenses of his office.

Mr. C. G. Burkhardt, superintendent of the sales department of the General Manifold Company, declares that their first quotations were found to be too low, and that an advance in the price was made of from 25 to 50 per cent, not only on all Government supplies, but commercial work as well (Exhibit C–2). There are no books in commercial use similar to those used in the registry system, so that an accurate comparison as to prices can not be made. But inquiry from several commercial firms using these General Manifold supplies shows that Burkhardt's statement is not true.

While the company has a legitimate right to advance the price of its product if it sees fit, the officers of the Government have been unable to furnish any reasonable excuse for their negligence in not having a uniform price fixed or agreed upon between the company and the Department before the books were adopted.

EMPLOYMENT OF LANDVOIGT'S SON.

It appears that Arnold Landvoigt, son of Superintendent Landvoigt, is an employee of Gen. Charles Miller, president of the General Manifold Company, at Franklin, Pa. (Exhibit C–8), and it has been suggested that this employment is the result of his father's aid to the company in the introduction of its books into the registry system. Landvoigt states that his son is so employed, but stoutly denies that such employment was given as a consideration for any act of his, directly or indirectly (Exhibit D–5). These statements of Landvoigt are substantially confirmed by Morton, the representative of the company who secured the young man's employment. In relation to this subject the following facts are submitted:

Early in the calendar year 1901, George L. Morton, at the suggestion of M. W. Louis, superintendent of the supply division, took up with W. H. Landvoigt, superintendent of the registry system, the subject of the adoption of this metallic duplicating paper for the books used in the registry system. This was the beginning of the acquaintance of Landvoigt and Morton. After considering the matter for several months, on September 28, 1901, a proposition to supply certain manifold books to the Department was submitted by the company which Morton represented. In October, the following conversation took place between Landvoigt and Morton (see Landvoigt's statement, Exhibit C–1):

> It was on one of these occasions, I think some time in the latter part of October or the 1st of November, that Mr. Morton, when we were spending a social evening together with some friends, made the remark to me, which I shall never forget: "Old man, you are worrying again about that boy, and you must stop it. I think I can find a place for him, where, if there is anything in him, he will have the future he is looking for." I replied, "If you do, I shall never forget you."

On November 20, 1901, Morton addressed Landvoigt the following telegram (Exhibit D–3):

> Please wire me total yearly value of books and blanks used in your Department in which manifold process is or could be used. Will tell you on my arrival in Washington of arrangements for your son.

November 22, 1901, Landvoigt answered as follows:

About $42,000 was paid for manifold work for the registry service during the last fiscal year.

On December 17, Landvoigt's son was employed by the manifold company at a salary of $75 per month. He was 23 years old, had never had any business experience, had resided some years in Germany, and was a musical student; afterwards he was promoted to $1,200 per annum.

On February 15, 1902, requisition was made for 15,000 carrier registration books, and from that date the manifold company's books have been in continuous use.

CONCLUSION.

It therefore appears that there is no evidence that Landvoigt solicited from the General Manifold Company the employment of his son, or that there was a specific understanding between the representatives of the company and himself that in consideration of such employment their books were to be adopted by the Department, but that while the question of the adoption of their books was pending before his division and before any orders had been given for them, a proposition was made to him by Morton, a representative of the company, to furnish his son employment at a liberal salary, considering the young man's experience in commercial affairs.

That such employment for his son was accepted by Landvoigt and considered a great personal favor.

That soon after such employment became effective, orders were given to the Manifold company for their books, and that their use was gradually extended to include all manifold books used in the registry system.

Landvoigt entered the postal service August 6, 1875, as messenger at $720 per year. He has been promoted in salary eight times, the last promotion being July 1, 1903, to $2,750 per annum. He is now superintendent of the classification division. As far as I have been able to learn, his record in the routine work of the Department has always been creditable.

The question in this case, therefore, is, Should the chief of a division of the Department, whose duty it is in dealing with contractors to represent the Government and to protect its interests, be permitted to accept valuable personal favors from a contractor while matters affecting the interests of that contractor are pending before him? In my opinion he should not.

It was Landvoigt's duty to pass on the quality and merits of the supplies furnished by this company. The acceptance of a favor of this character, therefore, was especially dangerous, as the value of such a favor at any time might be increased or decreased at the pleasure of the company, which fact would necessarily be in his mind continually when dealing with questions affecting its interests.

To permit such a practice on the part of Department officials would endanger the integrity of the service.

Landvoigt's action may not have been prompted by a corrupt or venal motive. He may not have realized at the time the gravity of his offense. But in any event, the interests of good administration demand his separation from the service.

[Landvoigt's resignation was accepted October 24, 1903.]

LOUIS KEMPNER.

On July 1, 1902, Landvoigt was succeeded as superintendent of the Registry System by Louis Kempner. Under Kempner's administration the use of the manifold books has been greatly extended. Under Landvoigt the use of manifold window registration books was restricted to offices registering two thousand or more letters per annum. This practically confined their use to offices of the first and second classes, of which there are but 1,349 in the United States. In the fourth-class offices the old-style registry receipt books, containing 450 receipts and costing only 30 cents, were used.

Kempner abolished the restriction as to the use of manifold books, and they were furnished to all offices regardless of the number of registrations. By this action he made these books available for use in the third and fourth class offices, of which there are 72,821.

The original estimate, of September 28, 1901, for window registration books, was for a book containing 500 receipts, at a cost of 22½ cents. This book, however, was never used, but in its stead a book containing 1,000 receipts, which cost $1.10, was furnished. Why a book containing 500 receipts that cost 22½ cents was not ordered, and a book with only double the number of receipts but costing five times as much was selected does not appear. The small book was certainly large enough for use in the 70,000 fourth-class offices.

The average registration in the State of North Carolina, including all offices, during the fiscal year 1902, was but 88 letters per office. There are 1,800 offices in that State which have less than 50 registrations per annum. The average registration in the entire State of Virginia, including the first-class offices, is but 109 to the office; in South Carolina, 120; in Alabama, 141.

These books are made of material requiring careful handling. Yet they have been sent out to hundreds of offices throughout the country that are kept in small country stores and farmhouses where there are few letters registered and where the records are carelessly kept (Exhibit D–4). To illustrate:

One of these books was recently sent to Cheatbridge, W. Va., where but 5 letters were registered during the year 1902; also one to Simmongrove, N. C., where but 11 letters were registered; to Suydam, N. Y., where 14 were registered; Ballards, Mich., 21; Grogan, Minn., 17; Guam, N. Mex., 10.

Out of recent shipments to 40 fourth-class post-offices in Ohio, taken at random, 23 of them were for offices that registered less than 100 letters and packages last year.

In a very large number of these offices it will require from ten to twenty-five years to use the receipts provided in one of these books, so that thousands of them will be worn-out and destroyed long before half the receipts are used.

Kempner states that he sent these books to the fourth-class offices in order to provide a uniform book for registration. There is no necessity, however, for such uniformity.

Another feature of Kempner's administration that deserves special attention is the printing of the names of the post-offices in the window registration book. As has been said, these books cost $1.10 per volume in large quantities, the name of the office being left in blank to be

inserted by rubber stamp or pen, but when the name of the office is printed in, the price is greatly increased. To illustrate:

5 volumes with name printed, supplied to Washington Bridge Station, New York, January 24, 1903, cost	$22.00, or	$4.40 per vol.
10 volumes for Portland, Me., May 26, 1903, cost	34.10, or	3.41 per vol.
15 volumes for Troy, N. Y., March 11, 1903, cost	37.95, or	2.52 per vol.

It may be desirable to print the names in the books used at the largest offices, but there is no justification for printing the names of post-offices throughout the country where only a few registered packages are sent out per day.

Kempner stated (Exhibit B, p. 18) that he was in favor of printing the name of the post-office in all of the registration books used in the United States. The following of such a policy would, at a conservative estimate, increase the amount of the expenditure for these books more than $100,000 per annum.

Registration of letters by city carriers was put in operation July 1, 1900. The old style of manifold books furnished was made by the Public Printer. Kempner estimates that there were about 22,000 of the old style registration books on hand July 1, 1902 (Exhibit C–3). In February, 1903, requisition was made for 20,000 carrier registration books from the General Manifold Company. These books were received April 16, 1903, at which time there were something over 10,000 old style books on hand. These books contained 50 receipts each; those of the General Manifold Company contained 25 receipts each. From July 1 to April 16 about 12,000 books had been issued, or about 1,500 per month. There were, therefore, on hand at the time the new supply of books was received, a quantity sufficient to last over six months, and it appears that the order at this time for 20,000 books was wholly unnecessary.

When the new supply of receipt books was received from the General Manifold Company, Kempner recommended to the Third Assistant Postmaster-General that the supply of old books on hand be destroyed. To this the Third Assistant refused to consent, and by his withholding such consent Kempner was prevented from destroying over 10,000 carrier registration books in good condition and available for use (Exhibits C–10, C–11, C–12, C–13). The only effect of such destruction would have been a loss to the Department and a corresponding benefit to the General Manifold Company, which would have supplied new ones in their stead.

From the report of Inspectors Harrison and Furniss (pp. 18, 19, and 20, Exhibit C), it appears that during the progress of the investigation Kempner endeavored to intimidate his clerks from giving information to the inspectors.

W. M. Mooney, chief clerk of the registry division, in an affidavit (Exhibit C–4) states:

> On June 29, 1903, I was called into the office of Mr. Louis Kempner, superintendent of the registry division, and accused by him of having given information to Inspectors Furniss and Harrison. During the conversation Mr. Kempner said that the inspectors were aware of the fact that a count of stock had recently been made; that Mr. Landvoigt's son was employed by the General Manifold Company, and that this information must have been furnished by some of the clerks of the registry division. I was accused of furnishing the above-mentioned information to the inspectors.

Kempner then, Mooney says, criticised the inspectors severely for interrogating clerks in his division without first consulting him about it.

Claude Dobbins, a clerk in the same division, in an affidavit (Exhibit C–5) says:

On the 29th of June, 1903, I was called into the office of Louis Kempner, superintendent of the Registry Division, who informed me that there had been much intriguing in his division and that much information had been given to the inspectors by his clerks, some of which was true and would embarrass him, but much of it exaggerated. He named the clerks whom he suspected of this, and added that after the investigation is over they would have to be punished. He advised me to keep my hand out of it. Continuing, he told me that he had not succeeded in obtaining a promotion for me, effective July 1, 1903, but there was a prospect of my promotion to $1,600 per annum later in the month, and that if he failed in this he had something else in view for me later on. Later in the day Mr. Kempner told me that he had recommended my promotion by letter, and the next day he showed the letter to me. I never requested a promotion of Mr. Kempner or anyone else.

During a conversation which occurred on June 30, after office hours, Mr. Kempner told me that he had had a talk with the Third Assistant Postmaster-General, who told him that he (General Madden) would expect loyalty from his chiefs of division, and the clerks would be required to be loyal to their chiefs.

He told me that the promotion of a clerk in his division had been ordered, but had been held up by General Madden because the clerk had been "knocking" him (Kempner).

Continuing, Dobbins says:

In his conversation about loyalty, Mr. Kempner informed me that he was considering the proposition of getting rid of W. M. Mooney, and if successful in this, he would do what he could to put me in Mooney's position, provided I would be loyal to him.

Milton R. Crandall, an employee in the same division (Exhibit C–6), says:

While I was engaged in conversation with the inspectors, Mr. Louis Kempner, superintendent of the registry division, came up and joined in the conversation. After the departure of the inspectors Mr. Kempner said to me: "In the name of God what information are you giving to these people?" I informed him that I had not given any information. He then said that any information to be given out would be given out by him, and that I would better keep quiet or I would get in trouble myself.

Mooney's manner and statement indicate an unfriendly feeling toward Kempner, but Dobbins appears wholly unbiased, and his character is vouched for by Kempner, who in a letter to the Third Assistant Postmaster-General, dated June 4, praised his work and recommended his promotion from $1,400 to $1,600 per annum (Exhibit C–7).

The inspectors believe that the allegations of the clerks above referred to are true, and state that Kempner's attitude throughout the investigation was not open and frank, but evasive, and his statements at times misleading.

Kempner's recommendation that thousands of the old carriers' registration books be destroyed suggests collusion to promote the use of the books of the General Manifold Company, but after a careful review of the whole case there does not appear to be any evidence that he received financial reward, directly or indirectly, from the Manifold Company.

VIOLATION OF REVENUE LAWS.

During the investigation of the use of manifold supplies the inspectors learned that Kempner had been receiving from Cuba numerous packages of cigars without paying the duty required by the revenue laws. Some of these packages were for his own use, and others he sold. Inquiry into this feature of his administration was made by

Inspectors Williams and Furniss, and their report is submitted herewith, marked "Exhibit E."

By an order of the President, dated November 10, 1899, anyone employed in the United States service in Cuba was permitted to send gifts or souvenirs to a member of his family, free of duty. It appears that Kempner had different parties in Cuba purchase cigars for him and send them by registered mail marked "gift." These were passed by the exchange office at Jacksonville, Fla., without being marked dutiable. Kempner, not only while superintendent of the Registry Division of the Washington post-office, but after he was transferred to the Department, received in this way packages containing dutiable articles, without payment of duty. It was his specific duty (Par. 21, p. 1020 Postal Guide, 1903) to report to the Department any dereliction on the part of the postmaster at any point of entry in enforcing the regulations as to dutiable matter.

Kempner's sworn statements upon this subject are of the same evasive and misleading character as his statements in regard to other official irregularities. When first interrogated by the inspectors he declared that he had received only a small number of these packages, and that they were all presents. Subsequently he said that the number was less than 40, while the inspectors submit a list of 78 packages that he has received since April 4, 1900 (Exhibit E–1).

Kempner first named three parties who sent these cigars from Cuba, namely: Albert Triani, Caibarien; and Juan Baguer, and one Jose, of Habana. The inspectors also learned (Exhibit E–1) that Albert J. Xanten and Clarence L. Marine, both of whom were formerly in the Cuban postal service, at Kempner's request, bought cigars in Cuba and sent them to him by registered mail.

Xanten says that Kempner sent him about $30, as he remembers, to pay for the cigars. Marine states that he bought the cigars and mailed them to Kempner at his solicitation, but that Kempner has never paid for them, though he had written twice soliciting payment.

Albert Triani, from whom Kempner says he received most of his cigars, is not in the postal service of the United States and never was.

Kempner claimed that he received these packages of cigars without payment of duty, in accordance with the provisions of the President's order of November 10, 1899. The following sets forth the provisions of the order and the manner in which Kempner complied with it. The order provides:

First. The package shall not exceed four (4) pounds in weight.

Kempner's packages not being available for inspection, it could not be ascertained whether or not this requirement was complied with.

Second. It shall be indorsed on the outside, in a conspicuous place, with the word "Gift," or "Souvenir," or the equivalent thereof.

The indorsement "Gift" appeared on the packages.

Third. It shall contain only articles designed as "Gifts" or "Souvenirs."

These packages contained neither gifts nor souvenirs, but merchandise bought by Kempner, and that which he did not use himself he sold to other parties.

Fourth. The articles shall be for no commercial purpose and not for sale.

Several of Kempner's packages were for commercial purposes and were sold by him.

Fifth. The package must be sent by some one in the United States service.

The majority of these packages were sent by parties who were not and never had been in the United States service.

Sixth. The package must be addressed to a member of the family of the sender.

None of these packages was sent to Kempner by any member of his family.

Seventh. The package shall be so marked as to show the branch of the service to which the sender belongs.

A part of the packages at least was not so marked.

Eighth. The package must be countersigned by a commissioned officer or a postmaster.

At least a part of them were not countersigned as required.

Kempner's suspension of the revenue laws in his own behalf caused him to be very liberal in the passing of dutiable goods for other parties in violation of the law. The Secretary of the Treasury has complained to this Department of the numerous violations of the revenue laws by this system of smuggling through the mails.

On May 27, 1903, the postmaster at Washington invited the attention of the Third Assistant Postmaster-General to four packages received from Manila, P. I., from a United States army officer to a friend or relative at Fort Myer, Va., stating that each package weighed from 9 to 18 ounces in excess of the weight prescribed by the President's order, but that other requirements were complied with. In reply to this, the Third Assistant Postmaster-General, in a letter initialed by Kempner, directed that the President's order be liberally construed, and the label, "Supposed liable to customs duty," should not be attached. In reply to this letter the postmaster very pertinently asked:

To what extent must matter be passed without affixing customs label, which is received weighing over 4 pounds?

Kempner, therefore, who was responsible for the enforcement of the regulations of the Department, ordered their violation, and has for years systematically evaded the revenue laws by a course of petty smuggling.

Louis Kempner was first appointed to the postal service as a clerk in the New York post-office in August, 1886, at a salary of $840 per annum. He was advanced by successive promotions until July, 1895, when his salary was $1,400. In February, 1898, he was reduced from $1,400 to $900. In the following June he was again advanced to $1,300, and in the following month assigned to duty in Cuba, when his salary was fixed at $2,000. In 1900 he was transferred to the Washington post-office at $1,700, and on July 1, 1902, made superintendent of the Registry Division of the Department.

CONCLUSION.

I therefore conclude that as an administrative officer he is either incompetent or inexcusably negligent.

That in sending expensive manifold books to a large number of insignificant fourth-class offices he has been guilty of reckless and indefensible extravagance.

That in supplying to small fourth-class offices the large window

registration book at a greatly increased price over the smaller one submitted by the company in its proposition of September 28, 1901, he acted in the interests of the General Manifold Company and against the interests of the Department.

That his recommendation for the destruction of a large number of carrier registration books was a wanton attempt to destroy valuable Government supplies.

That by evasive and misleading answers he attempted to conceal from the inspectors the irregularities of his administration.

That he used his superior position in tyrannical and unwarranted ways to intimidate the clerks under him from giving information to the inspectors, which it was their plain duty to give when called upon to do so.

That he deliberately violated the revenue laws by a system of petty smuggling and endeavored to use the President's order as to "gifts" and "souvenirs" as a cloak for his illegal acts.

I recommend that he be removed from the service.

[Kempner was removed October 21, 1903.]

OFFICE OF THE ASSISTANT ATTORNEY-GENERAL.

Prior to the beginning of this investigation, statements appeared in the public press to the effect that certain fraudulent schemes, popularly known as "get-rich-quick" concerns, were being allowed the unlawful use of the mails by the Office of the Assistant Attorney-General for the Post-Office Department (Exhibit F–1).

The failure of a number of these concerns in St. Louis, Mo., brought numerous complaints to the Department. Inspectors W. J. Vickery and R. M. Fulton were placed in charge of the investigation. Their report is submitted herewith, marked "Exhibit F."

At that time James N. Tyner was Assistant Attorney-General, and G. A. C. Christiancy and D. V. Miller were assistant attorneys.

Among other things it was alleged that Harrison J. Barrett, a relative of Tyner's wife, and formerly his assistant, was extorting large amounts of money from these fraudulent institutions under the guise of fees for legal services in preventing the issue of fraud orders against them.

Barrett was appointed assistant to Tyner on the 27th day of May, 1897, and served until December 31, 1900, when he retired to enter a law partnership with J. Henning Nelms, of Baltimore, Md. He was succeeded in office by G. A. C. Christiancy.

The Postmaster-General is authorized by law to refuse the use of the mails to anyone conducting a lottery business or a scheme for obtaining money under false pretenses.

All questions arising under the fraud and lottery statutes are referred to the Assistant Attorney-General for the Post-Office Department, and he passes upon the cases as presented and prepares orders prohibiting the use of the mails, known as "fraud orders," for the Postmaster-General's signature. These cases are not presented to the Postmaster-General for consideration unless fraud orders are recommended by the Assistant Attorney-General. The responsibility, therefore, for the execution of the statutes referred to rests with the office of the Assistant Attorney-General.

The administrative methods of Tyner and Barrett can be most

clearly illustrated by reviewing a number of cases that were passed upon by them.

E. G. LEWIS, ST. LOUIS, MO.

E. G. Lewis, of St. Louis, Mo., was conducting what is known as an "endless chain" scheme. He offered a watch for 10 cents, the conditions being that the original sender of the 10 cents was to get 10 cards. These he was to sell or give away to 10 other persons, each of whom was to send 10 cents and receive and distribute 10 more cards. And when all of these were sent to Lewis with 10 cents each the watch would be forwarded to the starter of the chain.

Lewis would get from original holder, $0.10; from first circle, $1; from second circle, $10, total, $11.10, before the watch was sent.

Barrett ruled that the chance of breaking this chain was so great that it amounted to lottery; that the possibility of one person controlling the action of 110 persons—in compound style—was so remote that it made the prizes dependent upon chance. He held, however, that the simple chain, which brought the prize on the second round, did not involve chance and was not lottery; that if the scheme, in other words, gave the watch upon the payment by the 10 to whom the first man sold his tickets, it might use the mails (Exhibit F–2).

Lewis, according to Barrett's rulings, was conducting a fraudulent business. No fraud order was issued, however, and he was permitted to wind up the current business upon the promise that in future operations he would simplify his plan as suggested by Barrett.

As an acknowledgment of the kind and courteous treatment which he received at the hands of Barrett in disposing of the case, Lewis presented him with a gold watch, valued at $35, which Barrett accepted. Afterwards it appears, however, that under the new name of the Mail Order Publishing Company, Lewis operated the same old scheme. When Barrett was advised of this he wrote Lewis, under date of July 25, 1899 (Exhibit F, pp. 4–6), accusing him of bad faith in returning to the old scheme, and said:

> You requested me, in consideration of my courtesy and leniency, to accept a watch, which you sent, and which I accepted in good faith; but now I can not, with self-respect, retain the watch, so I have returned it to you by mail to-day.

It seems, however, that afterwards amicable relations were reestablished between them, and Barrett again accepted the watch. Later, when Barrett retired from office, Lewis employed him as his attorney.

The impropriety of an officer accepting a present from a violator of the law, for an act of leniency, should have been apparent to a duller man than Barrett.

In September, 1900, the Attorney-General ruled that not only was the compound system in violation of the law, but the simple scheme as well.

MIDLAND PUBLISHING COMPANY.

At the same time that Lewis was promoting his endless-chain schemes in St. Louis, the Midland Publishing Company, publishers of the Coming Age, a concern with offices at St. Louis, Mo., and Boston, Mass., also was conducting an endless-chain scheme of similar character; the only difference being that each payment was 20 cents instead of 10, as required by Lewis, and the prize was a set of books or a sewing

machine. The company used exactly the same schemes and literature at both offices.

On August 29, 1899, the postmasters at both St. Louis and Boston were ordered by Barrett to refuse circulars of this company when offered for mailing. Shortly afterwards Mr. F. E. Richey, its attorney, called upon Barrett, who, as a result, on September 26 wired the postmaster at Boston to accept the mail until further ordered. No action was taken as to St. Louis, however, and at that place the company was still denied the use of the mails.

A case against the concern was in the hands of an inspector at St. Louis for investigation, and when the inspector visited the company it was discovered that they were sending all advertising matter by express to Boston, to be mailed at the Boston post-office, and that this was done at Barrett's suggestion. The officers of the company at St. Louis were disturbed over the visit of the inspector, and notified Richey, who inquired of Barrett as to the investigation. Barrett at once wired Richey:

Did not remember that case was in hands of inspector. Have had it recalled by wire, with instructions to take no further action. Letter follows.

The company was then left undisturbed for almost a year, when, on September 12, 1900, Barrett instructed the postmaster at Boston to deny the use of the mails to the Midland Publishing Company, the Attorney-General, under date of August 31, having declared all such schemes as those promoted by that company to be in violation of the lottery law. Before this time, however, the business had been wound up, and the officers of the company advised the postmaster that they no longer had any matter which they desired to mail.

Barrett, therefore, decided that it was illegal to use the mails to promote this scheme in St. Louis, but he permitted it to be done in Boston. He allowed the Midland Publishing Company to use the mails for more than a year after he had required Lewis to wind up an exactly similar business. The reason for such inconsistent action I have been unable to ascertain.

POPULAR FASHIONS.

L. H. Perlman, of New York City, publisher of cheap papers known as Popular Fashions, The Fashion World, and New Styles, was persistent in operating fraudulent schemes. As an illustration: In bold headlines across four colums of the paper he advertised an elegant set of dishes, 56 pieces, full size for family use, free. Below these headlines was a large engraving of the dishes. Then came a detailed description of them, followed by a statement in black-letter type (Exhibit F–4) that—

Any person answering this advertisement can get a handsomely decorated set absolutely free—we mean it. A straightforward, honest offer.

The condition was that the patron should—

Pin this numbered coupon to your name and address, and with it you must send 10 cents, in silver or stamps, to help pay advertising expenses, and you will receive four months' subscription to a beautiful magazine, together with our offer of a 56-piece China set (exactly as illustrated), which we shall positively send the same day this coupon is returned.

The person who read the advertisement, cut out the coupon, and sent the 10 cents as indicated, received a circular containing a large

plain engraving of the 56-piece set of dishes, with a small 3-piece set so placed in relation to the other as not to attract attention. The circular in large plain type stated that—

As you are among the first in your locality to answer our advertisement, we will, on receipt of $1 for one year's subscription to Popular Fashions, send you the magazine regularly for twelve months, and the very day your subscription reaches us we will promptly ship you, carefully boxed and packed, fully guaranteed against breakage, these handsome pieces as described and illustrated above the 56-piece set.

The patron who sent a dollar would get three small pieces of cheap ware of practically no value.

As a result of these deceptive advertisements, a great many complaints came to the Department, which were investigated; and on January 25, 1900, a report was filed by the inspectors recommending a fraud order. Some kind of a hearing was had in the office of the Assistant Attorney-General on the 31st of January, but no fraud order was issued. Complaints continued to come, and on April 30 Assistant Attorney-General Tyner notified the company to appear on May 5 and show cause why a fraud order should not be issued. In answer to this demand the company presented a statement (Exhibit F–4) declaring that—

all of the advertisements and circular matter issued by the company were before the Department at the hearing on January 31 last, and after a most exhaustive inquiry—

the Department had closed the case by issuing the following letter to all complainants:

SIR OR MADAM: The papers in your complaint against the Popular Fashions Company, New York, N. Y., are herewith returned with the information that they do not appear to present a case upon which this Department can take action.

Very respectfully,

(Signed) HARRISON J. BARRETT,
Acting Assistant Attorney-General for the Post-Office Department.

After hearing the case on May 5, Assistant Attorney-General Tyner reached the following decision:

After a hearing and consideration of the case of the Popular Fashions Company, in response to the letter to show cause, dated April 30, 1900, which is accompanied by a memorandum of charges, further action has been suspended, for the reasons and upon the agreement set out in a communication to the Popular Fashions Company under date of May 26, 1900.

The communication referred to was a lengthy letter from the Assistant Attorney-General, stating that in fact the concern had been operating schemes to defraud, but that he refrained from issuing a fraud order because the company claimed to have discontinued the advertising and had practically wound up the objectionable feature of its business, and had agreed to refund money to all complainants. On June 25 Tyner wrote the company another letter and called its attention to additional complaints, but no further action was taken, and hundreds of complaints continued to come to the Department.

On September 11 the Third Assistant Postmaster-General informed the Assistant Attorney-General that the permit to mail Perlman's paper at second-class rates had been canceled, and suggested that it be barred from the use of the mails because of its fraudulent character.

In January, 1901, another case was made up against Perlman and was referred for investigation. As a result, on January 24, 1901, Inspector Brown recommended a fraud order. His report was referred to the Assistant Attorney-General and afterwards returned

to the inspectors for further information. On April 2 another report was submitted by Inspector Brown with an additional recommendation for a fraud order, whereupon the Assistant Attorney-General's office on April 19 again ordered Perlman to show cause why a fraud order should not be issued. Prior to January 1, 1901, the cases against this company had all been handled by Barrett, though some of the letters were signed by Tyner. On that date Barrett retired from office and Christiancy succeeded him. In April, 1901, when Perlman was next called before the Department, Barrett appeared as his attorney and was successful in preventing the issue of a fraud order. The reasons assigned by Assistant Attorney-General Tyner for not issuing a fraud order at this time are set forth in a letter dated June 13, 1901, to the Fourth Assistant Postmaster-General, in which he states:

Evidence was presented at the hearing that the forms of advertisements and circulars used, and to which objection was found, had been verbally approved by the late assistant attorney (Barrett) for this Department, and although I do not concur in the approval, I deemed it proper to decline to recommend that a fraud order be issued.

In another letter, dated June 21, 1901, Tyner says:

During the term of service here of Harrison J. Barrett as assistant attorney * * * he had several interviews with the owner and manager of this concern. Mr. Barrett has since told me that he had verbally stated to said manager that the advertisement (and the one evidently to which you refer) was not, in his judgment, inimical to said law. With that assurance or expression of opinion from Mr. Barrett, I do not regard it as proper to lay heavy hands upon this concern, although I disagree with his judgment as to the application of the law in this case.

After this Barrett was employed by Perlman as his attorney and paid $1,000 per annum. He received a special fee of $200 for the services rendered at this hearing (Exhibits F–5 and F–6).

SAMUEL HARRIS.

Samuel Harris, of New York, operated a number of schemes (Exhibit F–7). To illustrate: He published in the papers in bold headlines:

$100 reward.

Under this headline was the picture of an eye, then the letters D and A, followed by the picture of a hoe. The advertisement announced that the above reward would be given to any one who would correctly answer the name of the State represented in the rebus.

It costs you nothing to guess, and the correct answer is on your map.

When the answer was sent in the correspondent was advised that under the rules of the company it was necessary, before a cash prize could be given, for him to become a patron of the Curaline Chemical Company by purchasing one package of their renowned Curaline tablets, a guaranteed specific for dyspepsia, chronic indigestion, constipation, biliousness, sick and nervous headache, fevers and colds, female troubles, facial eruptions, and all disorders of the stomach. The cost of these packages was 50 cents each. After the price had been paid the purchaser was informed that a great number had answered correctly and it became necessary to divide the $100 prize among them equally.

Since the puzzle was very simple and anyone could solve it, there

was usually not to exceed 2 or 3 cents each for those who had given correct answers. Yet even this pittance was not sent to the patron, but instead a certificate for the amount was mailed him, which, it was stated, would be received by the company as a credit in payment for another package of Curaline; but, if the patron preferred, the cash would be sent. But since the amount was only a few cents and it required further correspondence the patron usually dropped out.

One of Harris's concerns, the Bess Remedy Company, received as many as 3,000 letters a day in answer to one of its advertisements. It ran two contests a month from December, 1900, to June, 1901. It was investigated by a post-office inspector, who recommended a fraud order. A hearing was had by the Assistant Attorney-General's office, during which Harris seems to have become somewhat sarcastic in his remarks to Christiancy, who was conducting the hearing, and suggested that the case be postponed until he might go to Baltimore and hire an attorney, doubtless referring to Barrett. This remark was resented very much by Christiancy. A fraud order was issued on June 8.

Later on, however, Harris did go to Baltimore and employ Barrett, and on October 23, 1901, the fraud order was revoked upon a promise from Harris that he would in the future do an honest business. After the revocation of the order he immediately, under the name of the Curaline Chemical Company, began the same style of advertising, with the same character of contests, except that he charged $1 a package for his medicine instead of 50 cents. The same results followed. A $100 prize was offered for the solution of a puzzle, and, as formerly, thousands of people answered correctly. The case was again referred to the inspectors for investigation, and on January 17, 1902, the concern was ordered to appear January 23 and show cause why a fraud order should not be issued.

Harris did not appear at the appointed time, but Assistant Attorney-General Tyner received from Baltimore on that date a special-delivery letter which was delivered at his residence at 4.30 in the afternoon. The letter was dated New York City and signed "Curaline Company," but was written on a typewriter in Barrett's office at Baltimore, being the same typewriter that Barrett had used in the preparation of the postal laws of 1902. This typewritten note contained the following argument:

> Your memorandum shows upon its face that the plan to which objection is made has run its course, and therefore no mail is being received in pursuance thereof. The circulars referred to stated that the contest would close on December 24, which it did. And you further refer to the circular sent out advising contestants of the amount they are entitled to. This alone would seem to be sufficient to preclude the issue of a fraud order; but we deny that there was ever any fraud in the transaction.

At that time the concern was receiving about 300 letters a day. On January 27, four days after he received the typewritten note, Tyner addressed the following letter to the postmaster at New York:

> Mail addressed to the Curaline Chemical Company of your city which you are withholding from delivery under instructions from this office, dated the 18th instant, can now be delivered to the proper representative of that concern.

On January 29 a letter from the Assistant Attorney-General to the Fourth Assistant Postmaster-General states:

> It was observed in examining this case that the advertisement and the first circular combined present the inducement to send money to the promoter, and further, that the circular referred to contains a statement as to the time the contest will terminate. This latest date set for the closing of the contest, as shown by the papers filed with

the case, was December 24 last. The last scheme or contest of which this Office has knowledge has run its course. There is, therefore, no living scheme left to which a fraud order can be applied. The object of a fraud order is, of course, to reach such letters as come addressed to the promoter, and as one month or six weeks have passed since the date fixed at which the contest would cease, it is presumable that no letters are coming to the addressee.

In a letter of January 30 to the Curaline Chemical Company, Tyner says:

The case recently heard was not dismissed on account of the merits of the defense—in other words, on account of the failure of this office to obtain evidence that you had been using the mails for fraudulent purposes—but because the scheme itself had expired by limitation on December 24.

Such an argument nullifies the law providing for fraud orders. Harris was then conducting another contest. Complaints would not come until after the date set for the distribution of the prizes because there would be no disappointments prior to that time, and according to this ruling it would then be too late to consider the case.

Barrett was the attorney for Harris at that time, but for some reason he did not care to sign his name to the typewritten note referred to. His argument as set forth in such note, however, was accepted by Assistant Attorney-General Tyner as conclusive.

CASSIUS M. UPTON.

Cassius M. Upton was the publisher of a cheap illustrated paper in Chicago. He sought to extend his circulation by the puzzle plan (Exhibit F, pp. 31–40). In one of his schemes he submitted the initials of nine leading railroads running out of Chicago, with the names of the roads spelled out, omitting a few of the letters as indicated below:

I. C. R. R.—Ill-no-s C-n-r-l Railroad.
M. C. R. R.—M-ch-g-n C-nt-al Railroad.
G. T. R. R.—Gra-d Tr-nk Railroad.
L. S. & M. S. R. R.—La-e Sh-re & M-ch-g-n Sout-ern Railroad.
C. & N. W. R. R.—Ch-cag- & No-th We-ter- Railroad.
C. B. & Q. R. R.—C-ic-go B-rli-gt-n & Qu-ncy Railroad.
C., M. & St. P. R. R.—Ch-ca-o Mi-wa-ke- & S-int P-ul Railroad.
C. G. W. R. R.—Chic-go Gr-at W-st-rn Railroad.
B. & O. R. R.—B-lt-m-r- & -h-o Railroad.

Then in bold-faced type he offered $500 reward for full, correct answers to the list, stating that—

All that is necessary to get one of the cash prizes is to write out the full name of these nine roads correctly and send them to us as below stated.

Additional prizes, consisting of

A handsome silver tea set, a guaranteed Ansonia watch, or a very pretty Tiffany mounted ladies' genuine diamond ring,

were promised to those who sent four or more correct answers. Seven beautiful winter-flowering bulbs also were offered free to every person replying to the advertisement, whether answers were correct or not, the condition being that every one sending a solution must inclose with the same thirteen 2-cent stamps or 25 cents in silver for a three-months' trial subscription to Upton's Illustrated Weekly.

It is stated obscurely in the advertisement that if more than one person sends the correct solution the $500 will be divided pro rata, and further that

It is intended to make every prize winner a permanent advertisement for my weekly, and successful contestants must extend his or her circulation for one year.

After the 25 cents had been remitted, the victim was advised that in order to get a prize it would be necessary to send $2 for a year's subscription to Upton's Illustrated Weekly, which would entitle the subscriber to a choice of one of the three pieces above referred to, which were grossly exaggerated as to value.

The puzzle was so simple that anyone could answer it correctly. The result was that the $500 prize would have been divided up until the winners would have received less than 5 cents each. And Upton concluded, since the amount was so small, that it was not necessary to distribute it (Exhibit F).

Upton submitted this advertisement to Barrett, and in a letter dated February 11, 1899, Barrett passed upon the same, stating that it was not inimical to the postal laws.

Complaint was made by some of the victims of Upton's ingenious advertising, and the matter was referred to an inspector of the Chicago division, who, after investigating the case, submitted the facts to the district attorney, and he directed the arrest of Upton for using the mails in a scheme to defraud. The arrest was reported to the Department by the inspector, who recommended a fraud order against Upton.

Barrett's ruling upon the advertisement was that it did not violate the lottery law. Upton was arrested for using the mails to defraud and not for conducting a lottery. The fraud order, however, was not issued; but under date of February 11 the Assistant Attorney-General wrote a letter to the Fourth Assistant Postmaster-General protesting against the action of the inspector in causing Upton's arrest, stating that the attention of the inspector should have been called to the ruling of his office that the advertisement was not in violation of the lottery law. In this letter the Assistant Attorney-General says:

> While the question of fraud was not treated specifically, we would not have ruled that the advertisement was admissible to the mails had anything fraudulent appeared on its face.

In a letter dated July 5 to the Attorney-General, Assistant Attorney-General Tyner, referring to Upton's advertisement, says:

> The advertisement is somewhat suspicious, but it does not come within the prohibition of the law. I believe the post-office inspector erred in bringing the case to the attention of the United States attorney, and that the latter would not have disregarded the demands of justice if he had ignored the complaint. Unless there were facts in the case of which we then had no knowledge or any not since reported, I am free to say that the prosecution was unwarranted and that it should cease.

Upon the receipt of this letter the Attorney-General addressed a letter to the district attorney at Chicago, under date of July 6, in which he said:

> From Mr. Barrett's letter it would seem that Mr. Upton was advised that his enterprise was not contrary to law and that he only entered upon it after such advice. If these facts are true, it would seem to be unjust for the Government to prosecute Mr. Upton for offenses committed under the authority of the Post-Office Department. I should deem it adequate if he refrain in the future from violating the law in this respect, assuming that it is your opinion that the publication referred to is violative of the statutes.

Again, on July 8, the Attorney-General wrote:

> I inclose a copy of a letter from Mr. James N. Tyner, Assistant Attorney-General for the Post-Office Department, under date of the 5th instant, in relation to the discontinuance of the prosecution now pending in the district court of the United States for your district against C. M. Upton. * * * Inasmuch as this advertisement was submitted to the Post-Office Department and approved before being mailed,

and has now been withdrawn, you are instructed to dismiss the prosecution at once, unless there is known to you some good reason not appearing in Mr. Tyner's letter why it should be proceeded with.

In answer to this letter the district attorney at Chicago wrote the Attorney-General as follows:

JULY 13, 1899.

The ATTORNEY-GENERAL, *Washington, D. C.*

SIR: * * * I beg to state in reference to this matter, that it appears from the letter of Mr. Harrison J. Barrett, dated September 20, 1898, addressed to Mr. C. M. Upton, that Mr. Barrett was of the opinion: "That the awarding of prizes in this contest does not appear to be in anywise dependent upon lot or chance, and, therefore, the advertisement thereof in newspapers and circulars does not come within the prohibition of the lottery law."

You will observe that this opinion of the Acting Assistant Attorney-General for the Post-Office Department simply passes upon the question as to whether this advertisement was a violation of the lottery law, and nothing more.

We are not prosecuting Mr. Upton for the violation of this or any other lottery law; nor are we prosecuting him for the publication of this advertisement. We are prosecuting him for sending letters by mail to different individuals, in which he stated that, upon the receipt of $2, they would have an opportunity to obtain some of the prizes mentioned in a similar advertisement. The crime we are charging him with is the fraudulent use of the mails by sending these letters. He was carrying out, through the mail, a scheme to defraud. As a result, he has received a great deal of money, and was receiving it up to the time of his indictment, wrongfully.

He led the people to whom he wrote to believe that they would have an opportunity to receive a $500 prize, together with other prizes, when in fact there was nothing of the kind. If Upton had divided up his $500 there would have been, perhaps, 5 cents each to go to those who sent $2, when his letter led them to believe, rightfully, that there would, perhaps, be $500 for the winner. Upton knew that this was false when he wrote the letters.

So you can readily observe that the matter we are pushing here was not passed upon by any Government officer, the Acting Assistant Attorney-General, or anybody else.

We do not understand that, if through an oversight, a Government officer should apparently sanction the commission of a crime it is the duty of the prosecuting officers of the Government to decline to prosecute such crime. But there is no such question as that in this case. The point raised by us was not passed upon by the Post-Office Department. But if it was, we ask, under the circumstances in this case, if it is not the duty of the Department to let this case pursue the ordinary course?

Is it not better, I beg to ask, to let the whole matter be settled by a court, where both sides can be heard and the fact elicited? Upon the hearing by the court the question as to the effect of Mr. Barrett's letter can be properly settled, and the judge will see that no injustice is done Mr. Upton. Is not this a better way to settle it than an ex parte hearing, either in this office, in the Post-Office Department, or in your Department? Is not that what the courts are for?

We concur with the Post-Office inspectors here in the view that Upton was guilty of a scheme to defraud. He has kept it up until lately, and doubtless will continue it in some way if this indictment is dismissed. There are a great many similar schemes in this city. The inspectors are doing the best they can to suppress them, and we take pleasure in assisting them as far as possible, and we know, of course, that you and your officers are glad to see the law enforced in this as in all other particulars.

This prosecution is no reflection upon any Government officer, as appears to be assumed in the letter sent me.

I have presented the situation as I understand it, and have made the suggestions that appear to me pertinent, and shall take great pleasure in carrying out your instructions in the matter.

Very respectfully,

(Signed) S. H. BETHEA, *U. S. Attorney.*

To this letter the Attorney-General replied as follows:

AUGUST 11, 1899.

S. H. BETHEA,
United States Attorney, Chicago, Ill.

SIR: In the case of the United States *v.* C. M. Upton for alleged violation of section 5480, Revised Statutes, since my letter to you of July 8 last, and your answer to the same, it is made to appear from letters received from the Assistant Attorney-General

for the Post-Office Department and statements concerning the transactions in which Upton was engaged, and upon which the indictment was based, not only that the advertisement itself was presented to the Post-Office Department, but that the manner of business conducted under said advertisement by Upton was disclosed to the Law Division of the Post-Office Department, and Upton was advised that his said advertisement and business were not in violation of the laws of the United States. The Assistant Attorney-General for the Post-Office Department feels that under the circumstances Upton should not be prosecuted, and has so represented to me. Under the circumstances it seems but fair that the prosecution against Upton should proceed no further, and you are therefore instructed to discontinue the same.

Respectfully,

(Signed) JOHN W. GRIGGS,
Attorney-General.

After the dismissal of this case, Barrett continued to rule favorably upon the schemes of Upton. On December 16, 1899, he telegraphed him at Chicago as follows:

Favorable opinion was given on face of advertisement, with reservation that question of fraud, if any arose, would depend upon subsequent events. Letter follows.

This case of Upton should be compared carefully with that of L. M. Cushman which follows.

L. M. CUSHMAN.

L. M. Cushman, publisher of the Columbian, of Boston, Mass., was also a deviser of schemes to extend circulation, and operated in almost exactly the same manner as Upton, of Chicago (Exhibit F, pp. 41–46).

Cushman, in his advertisement, printed the picture of a Shetland pony and cart and offered the same as a prize to anyone who could count the number of spokes in the wheel of the cart. The spokes were distinct and could easily be counted. In addition to this prize of a pony and cart, $50 was offered to anyone coming within one of the correct number, $25 to those coming within two, $10 to those coming within three, and $1 to everyone coming within four. It was also provided that should two or more persons tie in the contest the large prizes should be equally divided. To be entitled to a prize, all must become subscribers to the Columbian, the "Great Family Story Magazine."

The conditions of the distribution of the prizes were practically identical with those of Upton. Upton required all prize winners to send $2, the price of the annual subscription to his weekly. Cushman required all prize winners to send $2, the price of two annual subscriptions to the Columbian. Complaint came to the Department from disappointed patrons, and on July 1, 1899, Barrett, in a letter to the postmaster at Boston, stated:

A review of this advertisement shows that it is designed to attract the attention of children, and the hope is held out to them that they may win a prize of a Shetland pony and cart simply by counting the spokes in the picture of a wheel—a requirement which any child can do correctly. The provision that "should two or more persons tie for any of the larger prizes they will be equally divided" is made to appear as a secondary matter, and is couched in such language that the persons for whom the advertisement is intended can not anticipate the real fact—that there will be thousands of correct answers to the puzzle; that there is no hope whatever of obtaining the pony and cart, and that an equal division of the prize money means only a penny or two for his efforts in solving the puzzle and fulfilling the additional requirement of obtaining two subscribers to the Columbian. * * * You are directed to refuse to accept for mailing the circular relating to this scheme, which is herein described and referred to, and advise the Columbian of this opinion.

While on February 11, the same year, in ruling upon Upton's case, he had said:

> The puzzle contained in the advertisement is probably easy of solution, but the fact that the $500 prize is to be divided among the persons sending the correct answer eliminates all question of chance.

On August 5, 1899, in a letter to the Fourth Assistant Postmaster-General, referring to Cushman's scheme, Barrett said:

> Cushman well knew at the time he was sending out those circulars asking for photographs that each person's share would not amount to one cent. * * * It is my opinion that this matter should be called to the attention of the District Attorney, and if he thinks proper indictments should be secured against Cushman. * * * The class of schemes such as those conducted by Cushman are petty swindles of the meanest kind, and every effort has been made by this office to suppress them.

Yet only a month had passed since Tyner had declared that the prosecution of Upton was "unwarranted and should cease."

Why Barrett should make an unusual effort to secure a dismissal of the case against Upton, and at the same time demand that Cushman be prosecuted for exactly the same offense and under the same law, I have been unable to ascertain.

The Assistant Attorney-General, in his report for the fiscal year ended June 30, 1899, urged that his office be given control of all criminal prosecutions under the postal laws. He said:

> I respectfully submit * * * that the management of prosecutions of offenses against the postal laws should devolve upon this office.

That he wanted control of these prosecutions for the purpose of preventing the prosecution in one case and enforcing it in another would not be an unwarranted conclusion.

After Barrett retired from office Cushman employed him as his attorney in matters pending before the Department, and paid $1,000 for his services during the year 1901 (Exhibit F–5).

The cases above cited are only samples of the methods of administration while Barrett was in the office of the Assistant Attorney-General for the Post-Office Department. Many similar cases could be cited.

BOND INVESTMENT SCHEMES.

When the Louisiana Lottery Company was broken up by the Federal Government, a number of institutions sprang up over the country embracing lottery features in their methods of business. Conspicuous among these schemes was the class known as bond investment companies (Exhibit F, pp. 47–109).

In 1893 a number of these bond investment schemes were brought before the Department and held to be lotteries, and where the question was taken before the courts the Department was sustained. Assistant Attorney-General Thomas, Tyner's predecessor, in his report for the fiscal year 1894, states:

> These so-called bond investment schemes are more dangerous to society than avowed lotteries because their lottery features are strenuously denied, and they are held out by their promoters to the public as legitimate business enterprises.

The general scheme is to sell to the investor a bond with coupons attached, promising extravagant returns of from 1 to 5 per cent a month on investments. The company flourished as long as new people were paying in. The coupons were redeemed from the money

paid in by new customers; but failure in the end was inevitable, and when the crash came all was lost.

During the administration of Assistant Attorney-General Thomas, from May 27, 1893, to May 6, 1897, 193 fraud orders were issued against these bond investment schemes. James N. Tyner entered upon the duties of that office May 8, 1897. On May 14 he addressed a letter to L. P. Skeen, attorney, Atlanta, Ga., ruling against the plan presented by the Georgia Redemption and Loan Company. After discussing the plan of the company at length he stated:

You have, then, the essential elements of a lottery in your scheme. This scheme is directly in the line with numberless plans of companies that have sprung up throughout the country and have been condemned by this office and denied the use of the mails.

There is another feature in your scheme which makes it operate as a fraud. You receive monthly from each contract holder $1.25. Of this sum you take at once 25 cents for your expense account. The remaining $1 you divide, giving 50 cents to the reserve fund and 50 cents to your retiring fund. The retiring fund is used entirely every month for the payment of your contracts, as per Table A. Hence you have only 50 cents as a reserve fund to meet the contracts that will fall due at the end of seven years. A moment's reflection shows that if all your contractors continue to pay their monthly dues it will be an impossibility for your company to meet its liabilities at the end of 7 years. In fact, you state on the face of your circular that the reason you hope to be able to carry out the scheme is that so many of your contractors will allow their bonds to be forfeited and the premiums they have paid in lapse to the company. There is no principle of law or equity upon which your company can claim the right to forfeit to itself the monthly payments made by the holders of your contracts. It is totally different from a life-insurance company, because you do not in your contract insure the life of the holder, nor do you undertake to pay the policy upon the death of the holder. Hence your claiming to forfeit or confiscate the monthly payments made by contract holders if at any time they fail to pay their monthly dues is a forfeiture without a consideration. No sane man would enter into such a contract if he fully understood its entire details. If all of them continue to pay their monthly dues, then it will bankrupt your company, and at the end of seven years it will be unable to meet its obligations. If they fail to pay their monthly dues the payments they have made are forfeited to the company without any consideration to the contractors. Your scheme is therefore both a lottery and a fraud.

Tyner says in his statement (Exhibit F–16) that this was a formal letter prepared by his assistant, Mr. Milliken, and signed in a routine way. Nevertheless, the reasoning seems to be clear and the decision sound.

June 1, 1897, Barrett was sworn in as Tyner's assistant.

In May an association of bond investment companies was formed, and sent as representatives to Washington, G. A. Villere, of New Orleans, president of the New Orleans Debenture Redemption Company, afterwards the International Loan and Trust Company, of Louisville, Ky.; S. A. Stevens, of Cincinnati, Ohio, president of the Interstate Loan and Trust Company, afterwards the Interstate Savings Investment Company, and J. Henning Nelms, of Lexington, Ky., attorney for the Southern Mutual Investment Company. These men sought to have the fraud orders that had been issued by the Department revoked. They employed Benjamin Butterworth, who had formerly been an attorney for some of the companies, but who was at that time Commissioner of Patents. They also employed the law firm of Dudley & Michener.

The manner in which these men succeeded is clearly indicated in the correspondence of Villere with J. P. Williams, secretary of his company. On June 24 he wrote Williams as follows (Exhibit F–8):

We have with us now extraordinary political backing, which I am not authorized to explain, but it is of the very strongest, and we are using it for all that it is worth.

* * * Judge Nelms, General Dudley, Mr. Bowman, of Lexington, and myself are the only ones in the secret, and believe me when I say it is the strongest that could have been desired. * * * We have the postmaster, the First Assistant, and Tyner with us, but they seem to be very much afraid to take any step before the whole grounds have been fully covered, all the decisions read, etc. * * * I have got the strongest assurance that the Government is our friend and will do all they can for us. Being sure of this I wanted to return home, but Butterworth, Dudley, and Tyner himself tell me that I must stay here; that I will be needed. * * * Judge Nelms and I have pushed the matter as far as we could yesterday and to-day, and the law clerk of Tyner is hard at work on the case. I can't believe for a moment, with all I know, that it can be possible to fail.

On June 28, four days later, he again wrote:

Had a long interview with the law clerk (very satisfactory); he is a nice fellow and a relative of Tyner's wife; his name is Barrett, and he has charge of this matter of ours and is conducting the investigation. I showed him the paper signed by the president of the different exchanges, and he insisted to keep it and file it with our case, saying we must neglect nothing to make the case as strong as possible, especially if we have to refuse the same privileges granted to you when asked by other companies having the very same plans.

At his suggestion of the other day I filed a petition to-day asking for a suspension of the fraud order against us, and in same certified that we are not using the mails. He then asked me to wire at once to our company as follows:

"Postmaster-General requests us to have our postmaster wire him certifying that to the best of his knowledge we are not using or trying to use the mail," which telegram I sent you and am in hopes you can induce Daniels to do so. He then told me that we would have to change some features of our plans, such as extending the maturity of our bonds or something else, so that they will have the excuse to say our plans have been changed and it is not the same plans passed upon by General Thomas.

He has practically promised as soon as the answer from postmaster is received he would act, and I expect a suspension ordered by about Thursday. We had a long talk about the other companies, and the crude plan now being considered by him is to send a first-class inspector to inspect all companies in New Orleans, we to help him in the investigation of other companies. It is well understood between us that we will give our help to him to crush any company that is not O. K. And we are on the point of making a bargain by which we will not push the Kentucky case, but allow it to be smothered so as to allow the Government to keep on issuing fraud orders. Of course that is provided we get the mails. I am in good spirits and believe more and more that we will get *all* we are asking for.

This letter was written on Monday, June 28, 1897. It will be observed that Villere predicted that by Thursday the fraud order against his company would be suspended. But he succeeded better than he then expected, the same having been revoked on Wednesday, the 30th.

As a result of Villere's efforts, fraud orders against the companies which this association represented were revoked as follows:

	Dated issued.	Date revoked.
Guarantee Stock Investment Co	Apr. 30, 1897	June 17, 1897
Southern Mutual Investment Co	Jan. 21, 1897	June 30, 1897
New Orleans Debenture Redemption Co. (since Apr. 1, 1901, International Loan and Trust Co., Louisville, Ky.)	May 26, 1896	Do.
Interstate Savings Loan and Trust Co. (afterwards Interstate Savings Investment Co.)	Dec. 4, 1895	Do.
State Mutual Life Insurance Co	Feb. 27, 1897	July 24, 1897
Louisiana Debenture Co	July 14, 1896	Do.
Germania Investment Co	Apr. 14, 1897	July 28, 1897
National Investment Co	Nov. 12, 1894	Aug. 12, 1897

I have been unable to ascertain whether Barrett or Tyner received any compensation as a result of their decisions in favor of these companies. Villere says that he entertained freely and had Barrett occa-

sionally for his guest; that he paid his attorneys liberal fees, but nothing to any postal official.

The revoking of the fraud orders against these institutions caused numerous others of a similar character to spring up throughout the country; and as far as the Post-Office Department was concerned they were, for a number of years, given unrestricted privileges in the operation of their schemes. It was announced that no fraud orders would be issued against them until they should have an opportunity to bring the matter before the courts in a test case to determine whether their plans were in violation of the lottery law.

In a letter (Exhibit F, page 52) to C. C. Archer, attorney for the Germania Investment Company, Barrett stated that no action would be taken against his company until such time as a decision might be rendered in the test case, which decision was never rendered; and there was no prospect of such decision being rendered at the time this statement was made. A case, however, was brought by the United States attorney for the southern district of Iowa, in the criminal courts, and an indictment found against Maupin, Christopher, and Ingram, officers of the Missouri Loan and Investment Company, Sedalia, Mo., successors to a company against which a fraud order had been issued.

It appears that Tyner and Barrett desired all criminal action against these concerns should be postponed until some civil action could be brought that would determine their status. A civil suit was afterwards brought in a case at Booneville, Mo., in which Dudley & Michener were the attorneys. It came to naught, and the criminal case, at the suggestion of Tyner, was continued from time to time until May 8, 1900, when it was dismissed.

In a letter to J. Henning Nelms, dated March 26, 1900, Barrett said:

> The Department has expected that a judicial decision might be obtained which would settle the questions at issue; but the cases brought for that purpose have for one reason or another failed.

No decision of the courts was ever had. When given the privilege of the mails the companies had no object in asking a judicial determination of their status, and they operated without restraint until December 5, 1900.

Meanwhile bond investment schemes multiplied until there were several hundred in the United States. Many persons believing these institutions sound because they were permitted the use of the mails, and were, in a way, given the approval of the Department, invested in them until the aggregate of the investments they represented amounted to millions of dollars.

Early in the year 1900 Barrett and J. Henning Nelms, of Baltimore, an attorney and agent for the Southern Mutual Investment Company, made a verbal agreement to enter into a law partnership, to become effective January 1, 1901. Shortly after such agreement had been entered into, Barrett announced that he desired to submit all questions affecting bond-investment schemes to the Attorney-General for a decision. Nelms evidently suggested that it would be better for Barrett to render such decision himself. This suggestion was adopted (Exhibit F–12), and on July 3, 1900, Barrett asked the chief inspector to gather the literature of all bond investment companies in the country and submit the same to him for his consideration. In August he also sent out a circular to all these concerns announcing his intention to

rule upon their schemes and asking them to submit briefs and any explanations they desired to make in regard to their methods of doing business. Barrett made a strong statement to the Chief Inspector in regard to the fraud being perpetrated by these concerns and the necessity for an actuary, a well-known authority, to pass upon the questions involved. As a result, D. Parks Fackler, of New York, was employed and passed upon the cases submitted by Barrett. Fackler held that all of the companies were doing business on a fraudulent basis and that they could not be financed out on any sound business principles. Barrett agreed with Fackler's report and made it a part of his opinion (Exhibit F–15).

In a letter to Hon. John G. Carlisle, who represented some of the Kentucky institutions, Barrett stated:

My desire has been to give every company opportunity to be heard. I now have before me some 50 cases.

In a letter to Hon. Dwight Harrison, of Columbus, Ohio, dated October 23, 1900, Assistant Attorney-General Tyner, in referring to Barrett's connection with this matter, said:

Scores of cases of this kind are in his hands, and have been for some time past, upon which, or at least upon the general principles involved, Mr. Barrett has obtained a large amount of data, which he will shortly use in an opinion touching the general features therein.

In a letter to Messrs. Kerr, Page & Cooper, attorneys, New York, under date of October 25, 1900, Tyner states:

I presume that this is one of the numerous crop of bond investment schemes that has within the last two or three years sprung up all over the country. * * * My assistant, Mr. Harrison J. Barrett, * * * has had these schemes under his immediate supervision and consideration for a long time past and has obtained a vast amount of material out of which he expects some time during the last half of the coming month to render an opinion that will apply to the principles involved in most of these cases. * * * I will refer your communication to him.

This opinion, containing over 100 printed pages, was finally rendered on December 5. He held all these bond-investment concerns were fraudulent. On page 11 he says:

I have endeavored to give careful study to these so-called bond-investment schemes. Indeed, for the past two or three years I have been at odd times gathering information thereon, and while the plans of operation that are now before me are, in my judgment, in some of their features inimical to the postal laws, yet I am thoroughly convinced that the basic principle underlying the bond-investment proposition is sound; and if the features which have resulted in giving unequal advantages to persons similarly situated were eliminated, and the returns promised were such that the proposition could be safely financed out, so that all persistent investors could be reasonably sure of the returns promised, the objections to them would be removed.

But while declaring them "inimical" he held open the door of hope. On page 109 he states:

I can conclude by saying that all these schemes as now framed are in the nature of lotteries or similar schemes and are based upon erroneous calculations and blunders from which the public, which will suffer and be defrauded if they are allowed to continue, should be protected; and the promoters of these companies will be much better off in the end if they are stopped now and compelled to put their enterprises on a sound basis before the inevitable collapse comes.

The attention of the companies promoting schemes similar to those herein outlined should be called to this opinion, and, for the reasons heretofore stated, be given a reasonable opportunity to abandon the same or to make such changes as will eliminate all objectionable features before further action is taken by this Department in the direction of depriving them of the use of the mails.

Tyner was the Assistant Attorney-General, yet everything relating to bond investment schemes had been referred to Barrett. Barrett formulated the opinion and signed it on the 5th day of December, 1900, as Acting Assistant Attorney-General, and it was approved by Tyner as Assistant Attorney-General.

There was a studied effort to give Barrett a conspicuous position in relation to the bond-investment business during the entire year. A letter was prepared for the signature of the Postmaster-General, initialed by Barrett, approving the opinion (Exhibit F–14).

It doubtless was very suggestive to the promoter of a bond-investment scheme to read the following closing sentence of Barrett's opinion:

> These companies should be given a reasonable opportunity to abandon the same or to make such changes as will eliminate all objectionable features before action is taken by this Department in the direction of depriving them of the use of the mails.

That is, they are fraudulent institutions, and are not entitled to the use of the mails; but fraud orders will not be issued against them until they are given an opportunity to amend their schemes so as to come within the law.

The same mail that carried this opinion and decision to the bond-investment concerns also carried to them an announcement that Barrett had resigned from the Assistant Attorney-General's office and had formed a law partnership with J. Henning Nelms, of Baltimore, and the business of these companies was solicited. They were advised that their business was fraudulent; that they must reconstruct their plans, and that Barrett was ready to help them reconstruct as required. The result was that even before he retired from office many of these concerns were seeking his legal services. To J. P. Williams, on December 20, 1900, ten days before his resignation became effective, he wrote (Exhibit F–10):

> I have received your favor of the 17th instant. * * * While my work at the Department has practically ceased, yet my official connection will not be severed until December 31, so that I would not feel at liberty to discuss ways and means with you. My associate and I will be pleased to act as your attorneys after December 31, and you could, of course, correspond with Mr. Nelms now. I believe we can eliminate all the objectionable features in the contracts and put them in such form that they will meet with the approval of the Department. Our fee would be $1,000 retainer and $100 a month for twelve months.

About December 15 he agreed (Exhibits F–5 and F–24) with G. W. Morgan, president of the Continental Security Redemption Company, of Birmingham, Ala., to prepare for him a contract satisfactory to the company and that would meet the approval of the Department, for which he was to receive $500 down and six $50 monthly installments. Barrett states that he did nothing for this company before he left the office, but Morgan insists that he took and filed the new contract before January 1.

Elmer Miller of Columbus, Walter Brown of Toledo, and S. A. Stevens of Cincinnati were all in Washington on bond-investment business during the holiday week of 1900. They state (Exhibit F–9) that Tyner was unwilling to take up their cases until after January 1, and that they were delayed from day to day until December 31, when Barrett announced that after 4 o'clock on that date he would be able to attend to their business. By agreement they met him at Nelms's home

in Baltimore the same night, where Stevens made a contract to pay him $150 as a retainer.

Mr. Charles A. Spenny, representing the Equitable Debenture Company, of Columbus, Ohio, called on Assistant Attorney-General Tyner on January 5, 1901, five days after Barrett had retired from office, to discuss with him the affairs of the company. In referring to this interview Mr. Spenny states (Exhibit F–20):

I went to the Post-Office Department, before General Tyner, and asked him when I could have an interview, telling him who I was and what my business was. He asked me if I had an attorney in the case, and I informed him that I had not, and he suggested that it might facilitate matters if I would have an attorney who was acquainted with that class of business. Being a stranger in the city and not knowing anyone, I asked him who would be a good man. He said that Mr. Harrison J. Barrett was thoroughly conversant with the law, as he had been in the Department and had passed on these questions, and that he would make a good man, and that there were other equally good lawyers in the city. I asked him where I would find Mr. Barrett, and he thought that he might still be in the Department; that he had been there that day, and sent one of his clerks to see; but upon the return of the clerk it was found that Mr. Barrett had left for Baltimore, Md. I then went to Baltimore that evening and met Mr. Barrett. * * * I asked him what he would charge as his fee for going before the Department with the certificate. He replied that if he went before the Department and the certificate was approved he would want $1,000. I agreed with him that if he would have the certificate approved we would pay him $500. * * *

Barrett the next day presented the matter to Tyner, and the certificate was approved. Spenny returned to Columbus, but his company soon failed as a result of the decision of the supreme court of Ohio, on March 26, 1901, declaring that such schemes were frauds and lotteries and against public policy.

SOUTHERN MUTUAL COMPANY.

The Southern Mutual case of Lexington, Ky., probably more clearly illustrates the scheme of Barrett, Tyner, and Nelms than any other. Nelms was the attorney for the company and his wife was a stockholder. A fraud order had been issued against this company by Assistant Attorney-General Thomas on January 21, 1897. On June 30, 1897, Barrett revoked this order. As has been said, Nelms and Barrett entered into an agreement of partnership early in the year 1900 (Exhibit F–18). The agreement was not reduced to writing, however, until the following December. In the meantime Barrett was collecting information for his opinion on bond-investment concerns. On June 25, 1900, six months before Barrett retired from office, but after he and Nelms had decided upon their plans for a partnership, Nelms wrote A. S. Bowman, secretary of the company (Exhibit F–13), as follows:

I inclose you, confidentially, of course, a note I have just received from Harrison J. Barrett, Acting Attorney-General for the Post-Office Department. He will probably spend Thursday or Wednesday night with me, and it is likely that the question of the Southern Mutual will come up * * * so I write to ask you to advise me by special delivery just what position I shall take in talking with him on the subject.

Bowman answered June 26, saying:

Find out all you can and commit yourself as little as possible.

June 30, Nelms wrote Bowman in "strictest confidence" as follows:

Last night, Mr. Barrett, Assistant Attorney-General, came over and we had several hours together. * * * I think I can say to you that you and the company

may safely rely that you will have absolutely no trouble from the Department. In the fall, if the company desires it, I can take copies of the certificates and prospectus to Judge Barrett and get an official opinion from him, sustaining them as entirely legitimate.

On July 2, he wrote Breckenridge and Shelby, Lexington, Ky., attorneys for the Southern Mutual, in which he says:

I now write you however in closest confidence, because I obtained my information as a friend of Assistant Attorney Barrett. * * * Mr. Barrett has decided not to submit the matter to the Attorney-General but to write the opinion himself, and he will make the discrimination as to which companies should be prohibited. He will not take up the Southern Mutual at all * * * unless we request it. * * * I am exceedingly glad that he is going to write the opinion himself instead of submitting it to the Attorney-General.

By reference to Exhibit F–13, it will be seen that numerous letters passed between Nelms and the officers of the Southern Mutual Company during the summer and fall which show that Nelms was in close confidential communication with the Department in regard to the interests of this company. On November 16, he wrote Bowman, saying:

Yesterday afternoon I had a long conversation with Mr. Barrett, and I know it will gratify you that I can tell you positively certain things that you can rely on in the coming decision.

First. The general plan and scheme of the investment companies will be sustained.

Second. The wild-cat companies will be required at once to change their contracts.

Third. The contract of the Southern Mutual will be either sustained in toto, or will be left alone for several months so as to give it ample opportunity to make the necessary change of its own accord.

Fourth. The Southern Mutual will be permitted to retain its present method of redemption.

I think you will agree with me that the above accomplishes the purpose of our trip to Washington. Of course you will realize the importance of the public not being made acquainted with the contents of this letter.

On November 24 he again wrote Bowman:

You can rely on what I have formerly written you in regard to the coming opinion from the Attorney-General's Office for the Post-Office Department, but the opinion will be such that I write to advise you at once to compromise the suit which you have against the insurance paper, and this should be done immediately. I mean before Thursday of this coming week.

D. Parks Fackler, the actuary employed to pass upon the merits of the various bond-investment concerns, in referring to the scheme of this company (Exhibit F–15, pp. 100–102), said:

The company proposes to give to each certificate holder $1,000, or three amounts of $333.33 each, being the amount of 3 coupons attached to each certificate, at the end of 140 months, by which time 141 payments of $3 each, or $1 per coupon, will have been made. Speaking more accurately, the contract "is to mature" at this time, and the monthly payments are then to cease; but the absolute payment is made contingent upon the reserve fund being sufficient to pay the certificate at that time and is to be deferred until the reserve fund is sufficient to pay all unmatured certificates or coupons.

The certificate provides that 10 per cent of the monthly dues may go for expenses, and it can not be assumed that their expenses will be less. Another 10 per cent is to go into the equation or loading fund and used for the best interests "of the company." * * *

Assuming that the company employs only 10 per cent for expenses, Mr. Fackler states that—

Ninety cents paid in on each coupon at the beginning of each month for 140 months and at the end of the last month, making 141 payments in all, if invested at one-half of 1 per cent a month would amount only to $183.65, instead of $333.33, due on each coupon. The payments would then cease, and it would then be necessary

to wait 120 months before the above sum, compounded at one-half of 1 per cent per month, would equal the $333.33, which would thus not be paid until twenty-one years and eight months from the issue of the original certificate. It would thus be impracticable for the company to fulfill its obligations under circumstances which are more favorable than are provided for under its contract; it is clear that it can not do so under the actual provisions of the contract without profits from lapses and other sources.

This company therefore could not meet its obligations except from lapses or new business. Barrett, on pages 46 and 48 of his opinion, holds that the company depending on lapses is fraudulent; and the same opinion is held by the Attorney-General. (Vol. 23, p. 512, Opinions Attorney-General.) Barrett also, pages 99 and 100 of his opinion, holds the scheme of this company to be a lottery. He says:

The consideration in this scheme is apparent. An examination of the financial schedule shows that the total early redemption values vary at different periods, considering the amount and time of investment. The returns range from 31 per cent, compound interest, on a coupon redeemed at the end of forty-eight months, down to 13 per cent on a coupon redeemed at the end of one hundred and forty-four months. The payment of these different returns among persons similarly situated are prizes, and the distribution thereof is dependent upon chance, as heretofore shown under class 1.

Referring to the fraudulent features, same pages, he says:

As to the impossibility of carrying out this proposition, reference is made to the report of Mr. David Parks Fackler, consulting actuary, under Subdivision B. The scheme is fraudulent, as well as in the nature of a lottery, so far as the use of the mails in the promotion thereof is concerned.

Barrett, therefore, in his opinion declared the principles upon which the Southern Mutual was doing business had the features of both a lottery and a fraud. On the 21st of December Nelms secured the approval by Assistant Attorney-General Tyner of a plan for this company, which it was never intended should be operated. The purpose was to enable the Southern Mutual officers to declare that the plan of their company had been approved by the Department, and prevent a panic among their patrons, which the Barrett opinion was likely to create.

The company was at that time collecting about $30,000 per month premiums on business which had been declared unlawful by Barrett's opinion. The approval of this plan enabled them to pass the critical period and reconstruct at leisure. They did not stop operating the business according to the old plan which had been declared fraudulent, and on July 1, 1903, there were still outstanding 3,700 coupons on the old business basis.

Nelms's plan had worked so successfully that after January 1 he claimed his reward. On January 5, five days after the partnership contract between Nelms and Barrett became effective, he wrote Bowman (Exhibit F–13) stating:

I am going to ask you to send me at once a check for $350 on fee. In the meantime, I wish you would state to your board of directors just what I stated to you and Mr. Bronston when you and he agreed to pay me $1,000 fee to get General Tyner to say he would approve the contracts submitted to him. I did not want you nor Mr. Bronston, nor am I willing for the board of directors to imagine that I would charge them $1,000 for two days' work. * * * The many days that I have spent in working to get an acknowledgment from the Post-Office Department that the basic principles of the business were sound, and to get an opinion written by Barrett, who I knew felt kindly toward the business and the men engaged in it, instead of letting that opinion be written by the Attorney-General, * * * I think entitles me in fairness to the fee you gentlemen named.

The controversy as to fee was finally settled by the company agreeing to pay $1,100, $500 for the work dating prior to January 1 and $50 a month for the year 1901. Nelms thinks that this $500 went to him, and no part of it to Barrett; but the books of the firm of Nelms & Barrett show that the $500 was entered as partnership fees.

Bowman seemed to object to the way in which Nelms put the question of the $1,000 fee more than to the amount of the fee. In a letter to him January 19, 1901, he says:

I am not answering for the purpose of evading the question of paying a liberal fee, but I do not desire to go on record as having said that we agreed to give $1,000 for General Tyner's simply saying he would approve our contract.

On March 8, Christiancy, as Acting Assistant Attorney-General, sent a circular to the officers of the Southern Mutual, which stated that—

This office has been advised that several bond investment companies have misunderstood the ruling of this Department and are continuing to issue their old forms of contract, which have been held to be inimical to the postal laws, until such time as they can formulate new plans which will be satisfactory to them and meet with the approval of the Post-Office Department. No such course was intended by the Department; and if your company is still writing its old forms of contract and using the mails in connection therewith, you must discontinue the same at once.

To this Mr. Bowman replied:

I do not know what other companies have understood, but I do know that General Tyner stated to Mr. Bronston and myself in language plain, clear, and unequivocal, and that could not be misconstrued, that this company could continue to issue its old contract until time could be had for its approved contract to be gotten from the printer and placed upon the market. * * * Upon Mr. Bronston's and my first visit to General Tyner on December 19 (a few days after the rendering of what is known as the Barrett decision), we explained to him that this decision had caused a panic among our present certificate holders. * * * General Tyner assured us that it was not the intention of the Department in any way to interfere with the contracts already written, and stated to Mr. Bronston and myself that we could come home and assure our certificate holders that the ruling of the Department would in no way interfere with contracts already issued. He stated to us that we could use this statement as authority from him to our certificate holders.

It appears that Bowman was not willing to forfeit the advantage he had gained by the approval secured through Nelms and for which he paid $500. Christiancy referred this matter to Tyner, who was then at Palm Beach, Fla., and in a letter to Christiancy on March 21 Tyner confirmed Bowman's understanding in the following note:

That he regarded my statements as authority to write the old contracts until he could construct new contracts and substitute them for the old ones is not surprising or unnatural, for it is probable that my assurances to him were not then as precise as I would now extend in the light of subsequent experience, not with his company especially, but with bond investment companies generally. I believe that he and his official colleagues have acted in good faith with the Department right along. * * * You may furnish a copy of this letter to Mr. Bowman as a reply to his of the date mentioned,

The letter of approval of the plans of this company on December 21 was dictated by Tyner to Haze Morgan, a stenographer in the office, from manuscript prepared by Barrett, with interlineations in his own handwriting. Morgan recognized at the time he was writing the letter that this approval was in violation of Barrett's written opinion filed but two weeks before (Exhibit F–17).

It will be remembered that other companies were compelled to wait for a hearing until after January 1, while the Southern Mutual was given a formal approval and permission to continue its old plan of business for months without being disturbed.

WANTED PROSECUTIONS HELD UP.

While Barrett was planning for extensive legal practice before the office of the Assistant Attorney-General after January 1, he did not overlook the fact that the inspectors who investigate complaints against those violating the postal laws were not under the direction of the Assistant Attorney-General's office. And he evidently was apprehensive lest the inspectors and the district attorneys might bring criminal proceedings against some of these concerns before he had an opportunity to reconstruct their schemes.

On December 13, eight days after the opinion was rendered, Barrett prepared a letter, which Tyner signed, addressed to the Fourth Assistant Postmaster-General, who has the direction of the inspectors' force, saying:

> Your inspectors should call the attention of this office to any schemes that are being operated similar to those set out in the opinion, in order that the companies may be notified to discontinue or modify the same. If after a reasonable time the companies to whom such notices are sent shall not comply with the terms thereof and adopt a new plan, which shall be held to be admissible to the mails by this office, I will thank you, whenever cases of this character come to the attention of your inspectors, to direct them to report the facts to this Department for reference to this office.
>
> Of course, this Department has nothing to do with any criminal prosecutions that may be instituted upon the motion of the district attorney; but I suggest, in view of the status of these cases, that none of them be presented to district attorneys by post-office inspectors for prosecution until the matter has been referred to this office for consideration.

This was a very unusual request, since it has never been the practice of the Assistant Attorney-General for the Post-Office Department in any way to control criminal prosecutions. The inspectors, in their book of instructions, are directed to submit all cases of this character to the United States attorney in the district where such offense is committed.

Mr. K. G. Pulliam, of the American Investment Company (Exhibit F–19), had employed ex-Secretary Carlisle as attorney to represent him in his efforts to prevent the issue of a fraud order against his company, which he expected as a result of the Barrett decision. Pulliam states that, after looking up the matter carefully, Mr. Carlisle advised him:

> There are only two ways of accomplishing this: The first, to take the matter into the Federal courts, at a likely expense of $25,000; the second, to employ Messrs. Barrett & Nelms, a newly organized law firm who stood close to the Tyner crowd. But if it was to be done this way he would have nothing to do with it.

Pulliam, however, was not so sensitive as the ex-Secretary. He employed Barrett & Nelms and contracted to pay them either $1,000 or $1,200 as a retainer, he does not remember exactly which, for fixing the contract satisfactorily, and a further compensation of $600 per annum, in monthly payments of $50 each.

The books of Nelms & Barrett show that during the first fifty-five days of their partnership they received $6,600 from these bond-investment concerns.

The changes in the contracts suggested by Barrett, for which he received such liberal compensation, were very slight, so slight that the same names, tables of value, and the same literature were used by the companies under the new contracts as under the old. Many of the old contracts guaranteed to pay a certain amount at a fixed time. Barrett suggested a modification providing, in effect, that

such payments would be made if there were funds on hand to pay, or so soon thereafter as the reserve and profits would warrant. Clauses of this kind were inserted with consummate skill so as not to attract attention, and the same old tables of estimated profits, with few exceptions, remained. Villere says (Exhibit F–8):

> In 1897 Barrett told me that we would have to change some features of our plans * * * so that they will have the excuse to say our plans have been changed, etc.

Barrett was then an officer of the Department. Afterwards as attorney for the fraudulent concerns he furnished the Assistant Attorney-General's office the excuse, as he then suggested. Barrett's making over, however, could not put business vitality into fraudulent institutions. One by one these companies have failed, until only three or four of the old ones are now doing business.

The Interstate Savings, Loan and Trust Company, of Cincinnati, which paid Nelms & Barrett a fee on the night of December 31, 1900, was, on March 26, 1901, by the supreme court of Ohio, declared a fraud and a lottery. Its assets were $300,000; its liabilities $2,000,000. A fraud order existed against this concern when Barrett and Tyner came into office, but was revoked June 30, 1897.

WANTED INSPECTORS.

Barrett and Tyner, not being able to control the operations of the inspectors in the investigation of these frauds, conceived the idea that bond investment companies could be more securely watched if the inspectors who examined into complaints against them should be placed under the control of the Assistant Attorney-General's Office. At Tyner's most earnest solicitation, the Postmaster-General appointed a clerk in the Assistant Attorney-General's Office as inspector, and assigned him to Tyner's office to work under his direction. A strong effort was made to have Congress appropriate $7,000 for the purpose of employing two of these inspectors, independent of the regular inspectors' force, who should devote their entire time to the investigation of bond investment concerns. This request, however, Congress refused (Exhibit F, p. 104).

At first a post-office inspector attached to the regular force was directed to accompany the Assistant Attorney-General's special inspector. They investigated a number of concerns and reported adversely, recommending fraud orders. The greater the number of investigations, the more cases before the Assistant Attorney-General's Office for consideration, and therefore the more business for attorneys in that practice. Many of these concerns, when investigations were begun, immediately sought the services of Nelms & Barrett (Exhibits F–9, F–19, F–24). Others were referred to Barrett by Tyner.

For over three years, while Barrett was in office, only one fraud order was issued against a bond investment company; but after he resigned and notified them that he was ready to reconstruct their contracts, and they had been given a reasonable time to comply with the requirements set forth in his opinion, no mercy was shown. During the first six months after he retired from office no fraud orders were issued against these concerns, while during the twelve months following this period 155 were issued.

Mr. A. G. Morgan, representing the Fayette Investment Company, Lexington, Ky., stated (Exhibit F–21) that when his company was

investigated he concluded it would be necessary to employ legal counsel before the Department, and that instead of buying a railroad ticket to Washington he bought one to Baltimore, that he might first consult Barrett & Nelms before presenting his matter to the Department.

Barrett's relations with the Assistant Attorney-General's office were such that he knew the movements of the inspectors who were to investigate bond investment schemes. He wrote to the Tontine Loan & Security Company, of St. Louis (Exhibit F–22), clients who were paying him $175 a month, and advised them in advance that they would be called upon by inspectors, and at their request he promised to delay the investigation until they were ready. In February, 1903, his contract with the company expired, and it did not reemploy him. Within 30 days from this time the inspector attached to the Assistant Attorney-General's office investigated its affairs and recommended a fraud order.

Most of the contracts made by Nelms & Barrett with clients were for the year 1901. For some reason they dissolved partnership at the end of that year. Barrett solicited a continuance of employment from a number of companies, while Nelms entered a theological seminary for the purpose of preparing himself for the ministry.

PHYSICIANS' INSTITUTE.

Barrett's practice after retiring from office, however, was not confined wholly to bond-investment concerns. The Physicians' Institute of Chicago was one of his clients. This concern advertised a magnetic belt "free." To any one answering this advertisement a symptom blank was sent, to be filled out and returned, with the statement (Exhibit F–27):

> If we find your case is a curable one, we will immediately send you the "Supreme" electric belt without a cent of cost to you.

In every case this concern claimed that the symptom sheet filled out by the prospective patron showed a complication of diseases. It had ten stock letters to describe the different ailments. Each one of these letters stated (Exhibit F, page 110):

> We deemed it advisable to call an extra session of the consulting staff of the institute in order to consider your case in detail.

The condition of the patient was invariably such that a belt alone would render no service; and a package of special medicine was forwarded in connection with the belt, by express, C. O. D., $5.60. If the victim declined the package, correspondence was entered into and finally it was released upon the payment of $1, if no more could be secured, with the assertion that the belt alone was worth $25, and the treatment $15.

Complaint was made to the Department and the case was investigated by the inspectors, who had a physician fill out one of the symptom blanks indicating a man in perfect health; but the same scare letter and the same express package came.

The company realized, when they discovered that the inspectors were investigating their operations, that there might be danger ahead, so F. B. Kidder, their secretary, engaged the services of Harrison J. Barrett, and paid him $5,000—rather a liberal fee for a young attorney who had been in the practice less than a year. Kidder states that he employed Barrett because he was advised "as to his special ability to handle mail-order business." On October 26, 1901,

he wrote Barrett a letter, three pages in length, which stated the company's case so well that Barrett did not deem it necessary to rewrite the letter or change any part of it, so he simply erased his own name and inserted that of the Assistant Attorney-General and forwarded the letter to Tyner.

On November 13, 1901, Barrett filed a brief which he had prepared, to which he signed the company's name. Then he sent to Tyner's home address a note inclosing the draft of a letter which he asked should be written to him by the Assistant Attorney-General, closing the case. He also prepared and inclosed to Tyner the form of an indorsement to be used in returning the case to the inspector. This note reads as follows:

I inclose two suggestions: (1) letter to me; (2) indorsement on return to inspectors. No hurry about case going back to inspectors, if you agree with my opinion, for two or three weeks; speed is not an essential on that score, but if your opinion agrees with mine, would like to know it when convenient.

I really think you have no ground on which to act, and that I have shown this conclusively. If not, send me a memorandum and I will respond further. If you do dismiss case, hope you won't feel you have to ask further investigation or recommend prosecution, but merely return it in the manner suggested in memorandum.

I want you to do just what you think right. I would not have taken this case, except I was convinced there was no violation, and will, of course, be pleased if you take the same view. * * * Will be over to-morrow.

H—.

The case was closed as suggested, and its return to the Fourth Assistant Postmaster-General was delayed as requested. It was not received at that office until November 30. Carbon copy of the reference, however, which is on file in the Assistant Attorney-General's office, is dated November 19.

TURF INVESTMENT COMPANIES.

E. J. Arnold & Co., of St. Louis, Mo., were conducting what is known as a "turf investment" scheme. They claimed to own a large number of race horses, and that in betting and book-making these horses earned for the company enormous profits; that out of these earnings they could pay dividends of from 2 to 3 per cent a week on investments. These dividends were actually paid, because credulous people readily invested, and the receipt of such profits encouraged the investor to put in more money. The dividends, however, were not paid from the earnings, but from the money paid in by new investors. As long as money came in faster than it was necessary to pay it out as dividends the company could continue, but in the end a crash was inevitable.

The inspectors began an investigation of the company on October 18, 1902. It furnished a statement of assets, but its liabilities were concealed, the officers claiming that they could not divulge the names of their clients, and an estimate alone was given. They also stated that a record of the earnings from the race track had not been kept. The inspectors directed them to keep such a record for thirty days, and postponed their report for that purpose. Meanwhile, the local attorney, a Mr. Fauntleroy, anticipating possible trouble from the inspectors' report, employed Harrison J. Barrett to represent the company before the Department. Barrett, in his statement of August 5 (Exhibit F–5),

referring to a conversation he had with Gill, manager of the company, says:

> In the conversation with Mr. Gill I told him it was not a question of any favoritism. It was simply a question of whether he was conducting this business in accordance with the law.

Why Barrett should have thought it necessary to advise Gill that he would not treat his company with favoritism does not appear. If he were practicing before the Department as any other lawyer, how would it be possible for him to extend a client any special favoritism in connection with the rulings of the Department?

It was agreed that Barrett should receive $5,000 as a retainer, which money was paid—a very liberal fee, considering the fact that the company not only had its local St. Louis attorneys, but also Dudley & Michener, of Washington, D. C., as counsel.

Barrett visited St. Louis November 10, to examine into the affairs of his new client. On November 15 he wrote the Assistant Attorney-General, submitting certain circulars and certificates of Arnold & Co., on which he desired an opinion as to whether such circulars were mailable. In this letter he stated:

> The company holds in cash or assets to-day a sum far in excess of deposits made with it. All dividends are paid out of actual earnings. * * * Prior to July 1, 1902, only actual earnings were paid. Since then 3 per cent a week was guaranteed and has been regularly paid out of the earnings. To obviate any criticism or question, this guarantee is eliminated, and depositors will share in the profits, whatever they may be, to the extent of 3 per cent a week.

Formerly the company had guaranteed 3 per cent a week. At Barrett's suggestion the wording was so changed as to read: "Depositors will share in the profits to the extent of 3 per cent a week." This letter was signed by Barrett, and Dudley & Michener.

Tyner promptly approved the literature as requested, and on November 17 wrote the postmaster at St. Louis to accept it for mailing.

Assistant Attorney-General Tyner was stricken with paralysis in July, 1902, and was at the Department very little after that date. On the 15th of November, as he remembers (Exhibit F–16), Barrett and other attorneys presented a communication requesting a ruling on certain circulars, which he approved. This letter of approval was the first official letter signed by him since July 1. On the 25th of November, seven days after the signing of this letter, the inspectors completed the investigation and reported (Exhibit F–28) that the dividends paid were enormous; that the company did not clearly show whence they came; that means for verifying the assets of the company had been refused, and that it was impossible for them to ascertain whether the dividends paid were earned or not, or whether the concern was solvent or insolvent. They therefore recommended that Arnold & Co. should be cited to show cause why a fraud order should not be issued against them. They were not cited, however, to show cause, nor was a fraud order issued; but instead, at Barrett's request, a favorable ruling was given the company. This ruling reads as follows:

> DECEMBER 4, 1902.
>
> Messrs. E. J. ARNOLD & Co.,
> *Benoist Building, St. Louis, Mo.*
>
> GENTLEMEN: In accordance with the request of your attorney that you be advised as to the action of the Department in connection with the recent investigation of your business by post-office inspectors, I beg to inform you that the report of these inspectors has been received, the same considered, and the case against you closed.

It is proper, however, to remark that the closing of the case by the Department does not necessarily prevent the reopening of the same and the taking of such action thereafter as may be deemed necessary if any violation of the law should be brought to its notice.

Very respectfully,

(Signed) JAMES N. TYNER,
Assistant Attorney-General for the Post-Office Department.

The letter was mailed to Barrett and by Barrett to the company's local attorney at St. Louis. On December 6 he wrote Gill, manager of the company, saying:

Confirming my telegram of last night, I mailed to Mr. Goodman official letters of the Post-Office Department. He will bring them to you.

In regard to the Enquirer matter, I consider the article a good one. I took the matter up again, however, and it will be fixed. * * * Congratulating you upon the satisfactory closing of the incident, and thanking you for your courtesies, I am.

The article in the Cincinnati Enquirer referred to was as follows:

Satisfied are Federal authorities with the nature of the business of a St. Louis stable.

The Post-Office Department has submitted a ruling to the postmaster at St. Louis, Mo., according to E. J. Arnold & Co., of the Mound City, the privileges of the United States mails.

In the Enquirer for August 28 of the present year there appeared a short item intimating that the business of Arnold & Company was under surveillance of the Federal authorities. It appears from the strong and sweeping ruling above referred to that the latter are perfectly satisfied as to the nature and character of the transactions in which Arnold & Company are engaged. In addition to the conduct of a turf investment bureau, which, it is said, pays weekly 3 per cent dividends, the firm owns a number of racing horses. They are given a good rating by a number of financial institutions.

The agents of Arnold & Company seem to have had a prior understanding that a letter was to be secured from the Assistant Attorney-General. Their representative in California, P. L. Kaye, wrote from San Francisco, December 3, the day before the Tyner letter was written (Exhibit F-28):

I understand that the postal department will issue a statement that E. J. Arnold & Company are doing a safe business. Of course you will have such a statement printed. Please send me a couple of hundred copies of it. Now is the time for us to call the attention of the postal people to the several turf commissioners operating out here and put them out of business.

The Tyner letter was printed with the second paragraph omitted, and became a part of the advertising literature of the company. Two days after Tyner wrote this letter, Barrett deposited Arnold & Company's check for $1,000, this being an additional fee.

Christiancy claims that he protested against Tyner's writing this letter, and urged Barrett not to ask him to do it; but his protest was of no avail. Tyner dictated the letter personally and requested Christiancy to sign it. Christiancy says (Exhibit F-29) he declined, declaring that he would resign his position first. Tyner then asked Miller, an assistant attorney in the office, to initial the letter, which Miller did. This indicates that Tyner himself had some misgivings as to the ultimate end of this transaction and sought to have some one share with him the responsibility.

The Arnold letter was the last official decision of James N. Tyner, Assistant Attorney-General for the Post-Office Department.

This indorsement of the Arnold company gave a new lease of life to the concern. But the inevitable end could not be postponed long. It came in February, two months later, when the company failed with

assets $75,000, liabilities $3,120,776. This was the condition of the company which Barrett stated had in cash or assets a sum far in excess of deposits, and which was using only its actual earnings in payment of dividends. And on such statement, in the face of the adverse report of post-office inspectors, Tyner delivered to him a letter of approval, which letter enabled him to earn $6,000 in fees and authorized the company to defraud the credulous public out of thousands of dollars during the remainder of its brief career.

J. J. RYAN & COMPANY.

J. J. Ryan & Company, of St. Louis, was a kindred institution to Arnold & Company, and conducted business in the same manner. The inspectors investigated this concern October 4, 6, and 7, 1902. In their report (Exhibit F–30) they stated that the officers of the company refused to afford them facilities for verifying the statements of assets and liabilities; that the funds were not being used exclusively in the bookmaking business, as advertised; that dividends were guaranteed, amounting to from 1,200 to 1,400 per cent per annum; that the company's literature contained misrepresentations, and that the scheme depended upon new business for continued existence; and recommended that the concern be cited to show cause why a fraud order should not be issued against it.

Christiancy, Acting Assistant Attorney-General, cited the company to appear, as recommended by the inspectors, fixing the date for November 11. At the hearing Christiancy presided for a time, but afterwards turned the case over to Assistant Attorney Miller. The result of the hearing was that Ryan agreed to furnish the inspectors all of the information desired. Amendments to the literature were to be made along lines suggested by Miller, and Ryan was to demonstrate to the inspectors, when they called again, his ability to pay all obligations.

As prearranged with Ryan, Miller then requested another investigation by the inspectors, which was made on November 26 and 28. Ryan, thus previously advised, was found awaiting their visit with plenty of cash on hand, according to the records he furnished, to offset the amount shown to be due subscribers on November 11. The inspectors were suspicious of the showing and reported the fact to the Department with the statement—

> that the solvent condition of to-day was no indication of the condition to-morrow.

In the meantime, on November 21, after Ryan's visit to the Department and before the reinvestigation by the inspectors, Ryan received a letter (Exhibit F–30) from J. M. Johns, attorney, Rockville, Ind., saying:

> If you will meet me at Filbeck House, Terre Haute, Ind., soon I can be of service to you as attorney in your business. Bring samples of literature. Wire me date of meeting.

A number of telegrams were exchanged, and finally, on the 28th of November, the two met at the Filbeck House, Terre Haute, Ind., where Johns informed Ryan that D. V. Miller, assistant attorney in the Post-Office Department, was a close political friend of his; that Miller had consulted with him before he accepted the position at Washington; that the salary was small and not of much consequence;

that the "trimmings" were all that amounted to anything, and suggested that he would get Ryan out of his trouble with the Post-Office Department and a clear passage from the man who passed on all of Ryan's business for a fee of $5,000.

Ryan seems to have protested, but fearing the result of an outright refusal, he offered him $2,500, which proposition Johns took under advisement. That evening Johns made Ryan another offer to the effect that for $3,500 he would have Ryan's literature adjusted by Miller so that it would pass the most rigid investigation by post-office authorities. Ryan offered $2,000 for this service, which Johns agreed to accept, protesting that it was a very small amount when divided between himself and his friend Miller. The two parted, apparently having concluded that $2,500 should be paid for a "clean bill" before the Post-Office Department, and $2,000 for Miller's amending the literature—$4,500 in all.

This meeting between Ryan and Johns occurred November 28. On December 8, D. V. Miller initialed and Acting Assistant Attorney-General Christiancy signed the following letter, almost an exact reproduction of the letter to Arnold & Co., signed by Tyner four days previously:

D. V. M.

DECEMBER 8, 1902.

Messrs. JOHN J. RYAN & Co.,
St. Louis, Mo.

GENTLEMEN: Your attorney has requested that you be informed of the decision of this Office in relation to your case which has been pending before it since the 11th day of November, 1902, and in accordance therewith I beg to inform you that the additional information required by this Office at the time of the hearing has been furnished by you to the post-office inspectors, and that their report has been filed, considered, and the case against you closed.

It is, however, proper to say that the same will be reopened if it should in the future be reported to this Office that you are conducting your business in violation of law, and such action taken as is deemed proper.

Very respectfully,

(Signed) G. A. C. CHRISTIANCY,
Acting Assistant Attorney-General
for the Post-Office Department.

In the month of April, 1903, when the inspectors were examining the letter-press copy books of the office, Christiancy marked on the margin of the above letter "canceled," stating that it had been withheld and the following letter, under date of December 10, forwarded in its stead:

D. V. M.] DECEMBER 10, 1902.

Messrs. JOHN J. RYAN & Co.,
St. Louis, Mo.

GENTLEMEN: Your attorney has requested that you be informed of the decision of this office in relation to your case which has been pending before it since the 11th day of November, 1902, and in accordance with said request I beg to inform you that the information desired, as indicated by certain written questions propounded to you at the time of the hearing and your answers thereto, was furnished by you to post-office inspectors on November 28 and 29, 1902. Said inspectors have filed their report with this Office, which report showed that you had furnished the information desired and were complying with the promises and agreements contained in your letter to this Office of November 11, 1902.

If you have since November 29, 1902, fully complied with your promises and agreements contained in your letter of the 11th ultimo and will still continue to do so, no further action will be taken by this Office and your case will be closed; but should this Office at any time in the future receive satisfactory information that you

are not complying with the agreements in said letter contained, then such action will be taken as the circumstances may demand and the Department deems proper.

Very respectfully,

(Signed) G. A. C. CHRISTIANCY,
Acting Assistant Attorney-General
for the Post-Office Department.

The canceling of the record of the letter of the 8th, four months after it had been written, with the statement that the letter of December 10 was substituted in its place, has never been satisfactorily explained.

On December 7, however, a St. Louis post-office inspector made a special report, stating that the John J. Ryan bookmaking enterprise of St. Louis, Mo., investigated some days previously, was refusing to redeem certificates on demand, thus violating its agreement with the Assistant Attorney-General, and recommended—

that this special report be referred to the Assistant Attorney-General for such action as he desires to take relative to a fraud order as a result of this apparent violation of promise made to that Office by this company.

The report was referred to the Assistant Attorney-General's Office on the 9th of December, and in Miller's handwriting is indorsed "closed." It may be that upon receipt of this report Miller withheld the letter of December 8 and forwarded that of December 10 with changed phraseology. On December 10, Miller mailed Ryan's letter to Johns at Rockville, Ind., and that evening sent him, under an assumed name, the following telegram:

WASHINGTON, D. C. (night domestic), *December 10, 1902.*

J. M. JOHNS, *Attorney at Law, Rockville, Ind.:*

Letters reach you Friday morning. Never wired him. Go promptly.

JIM.

Johns then communicated with Ryan, met him by appointment at the Gibson House, Cincinnati, the night of December 16, delivered the letter to him, and received $1,000 in cash and $3,400 in checks, $100 having been paid at their former meeting, November 28. Ryan & Co. proceeded to fleece the public until February, 1903, when they failed for $1,300,000.

As a result of this transaction, Miller and Johns have been arrested and are under bond to appear before the United States court at Cincinnati. On May 25, 1903, when the facts in regard to Miller's connection with this case became known, the Postmaster-General summarily removed him from office. He had served less than a year, having been appointed on July 1, 1902.

In the fees requested and in the action taken by the Department the Ryan case is so similar to the Arnold case as to make it appear that Miller was an apt student of the methods by which business was transacted before the Office of the Assistant Attorney-General for the Post-Office Department.

Christiancy protested against the Arnold letter, remonstrated with Barrett, and finally refused to sign it when requested to do so by his superior officer; but in less than a week he signed both the Ryan letters without hesitation and upon his own motion.

THE REVIEW BILL.

Another interesting development in connection with the administration of Tyner and the practice of Barrett before his office is indicated by their interest in what is known as the "Review bill."

In July, 1902, Tyner was stricken with paralysis and became an invalid. It was clearly evident that he was near the end of his official career. In his report for the fiscal year he urged the passage of a bill giving the right of appeal to the district and circuit courts against the decision of the Postmaster-General in regard to fraud orders. Dudley & Michener, who had extensive business before the Assistant Attorney-General's Office, also urged the passage of such a bill. Barrett was heartily in favor of it, and the correspondence between him and some of his clients shows that they were exceedingly anxious that such a bill should pass.

A bill was prepared (Exhibit F–31), forwarded to Tyner, and by him to Christiancy, with instructions that he submit it to the Postmaster-General for his approval. Christiancy, however, interfered and offered such objections to the measure that the Postmaster-General withheld his approval. Nevertheless a bill was introduced into both the House and the Senate. The Postmaster-General addressed a communication to Congress, setting forth the objections to the passage of such a measure (Exhibit F–35) and no further consideration appears to have been given it by Congress.

A fraud order to be effective must be issued promptly. And a law giving a fraud the right to appeal from the decision of the Postmaster-General would practically nullify the law authorizing the Postmaster-General to deny the mails to fraudulent concerns.

RIFLING OF THE SAFE.

On April 21, 1903, while the investigation of the Assistant Attorney-General's office was in progress, Mrs. J. N. Tyner and her sister, Mrs. Barrett, mother of Harrison J. Barrett, by previous appointment met Mr. G. G. Hamner, an expert of the Mosler Safe Company, on the first floor of the Post-Office Department (Exhibit F–33). They then proceeded to the fifth floor, where Mrs. Barrett and Mr. Hamner remained in the corridor while Mrs. Tyner entered the office of the Assistant Attorney-General through the regular public entrance. She stated to Christiancy, then in charge, that she desired to go into General Tyner's room. She was admitted, and at her request was left alone, Christiancy closing the door through which she had entered. She then unlocked the corridor door and admitted Mrs. Barrett and Mr. Hamner, locking the door after their entrance. Hamner, at her request, then unlocked the safe, opened it, and after taking out all of its contents locked it again. Mrs. Barrett then let him out of the room through the corridor door. The two women were in the room almost an hour.

In the meantime Christiancy was informed that there was a man in the room with Mrs. Tyner. Shortly after that P. V. Keyser, a clerk in the office, informed him that the man had left the room through the corridor door. When Mrs. Tyner had remained there almost an hour, she called Andrew Hogan, the colored messenger, had him wrap up a package, and then, with Hogan, left the office in the same way she had entered.

Christiancy seems to have become somewhat concerned at Mrs. Tyner's remaining in the room so long. He finally went down the corridor to a room where the post-office inspectors were at work and advised them that Mrs. Tyner was in General Tyner's private room.

The facts were reported to the Postmaster-General, with the statement that there were a number of records in the room which the inspectors had not yet examined. The inspectors were instructed to ascertain at once the purpose of Mrs. Tyner's visit, but when they reached the Assistant Attorney-General's office she had gone. They were then directed by the Postmaster-General immediately to find Mrs. Tyner and ascertain what she had taken from the room. Mrs. Tyner indignantly refused to give up the package or divulge its contents, and declined to allow the inspectors to see Mr. Tyner, who, she said, was in a critical condition and could not be seen by anybody.

What was in the safe no one knows but the Tyners. Tyner alone had knowledge of the combination. Mrs. Tyner stated that she went to the office and secured the contents of the safe under the direction of her husband, which statement he confirmed. Some days later a package was returned to the office of the Postmaster-General which it was alleged contained all that was taken from the safe; but there is no evidence to this effect except the statements of the Tyners.

If Christiancy had reported to the Postmaster-General the fact that Mrs. Tyner desired to enter the room to secure some personal effects from the safe, there would have been no objection whatever to her doing so in an orderly way. If her purpose was honest, why should she enter the room, close the door, and forbid anyone to be with her except her sister and the safe expert? Christiancy has not satisfactorily explained why he permitted her to remain there for an hour without notifying the Postmaster-General or the inspectors.

As a result of this episode Tyner was summarily removed from the Office of Assistant Attorney-General and Christiancy was given an indefinite leave of absence. On July 14 Christiancy submitted his resignation, which was accepted by the Postmaster-General October 12.

CONCLUSION.

In the preparation of this report I have endeavored briefly to cover the principal features of the administration of Tyner, Barrett, and Christiancy while in control of the Office of the Assistant Attorney-General for the Post-Office Department.

George A. C. Christiancy first entered the service as a clerk in the Interstate Commerce Commission in 1889. He was appointed as an assistant attorney in the office of the assistant attorney-general for the Post-Office Department January 1, 1901. There is no evidence that he ever received any money, directly or indirectly, from any of these fraudulent concerns. How it was possible for him to serve in that office for over two years and not have knowledge of the reprehensible practices of Barrett, through the connivance or indulgence of Tyner, I can not understand. He apparently failed to realize the responsibilities that rested upon him or clearly to comprehend his duties. Why he should have protested against the Arnold letter, as he seems to have done, and then within a week sign, without any hesitation, a similar letter to Ryan, can be explained only upon the theory that he was induced to do so by Miller, in whom he had confidence.

He probably was intimidated by the imperious manner of Mrs. Tyner when she asked to be left in the room alone, but it should not have taken him an hour to recover sufficiently to walk across the hall and inform the Postmaster-General or the inspectors.

Tyner entered the postal service nearly forty years ago as a special agent; has since held the offices of Second Assistant and First Assistant, and was Postmaster-General from July 12, 1876, to March 12, 1877. Under the Harrison administration he was Assistant Attorney-General for the Post-Office Department, at which time Barrett was his secretary and stenographer.

Those who are charitably inclined excuse his official delinquencies on the ground of affection for his nephew and his failing mental faculties. But the deliberate manner in which he promoted Barrett's bond investment conspiracy and the free hand which he gave him in his dealings with fraudulent concerns, from the beginning of Barrett's connection with his office, forbid my taking this charitable view of his conduct.

For six years under his administration certain favored frauds and lotteries were given free use of the mails. Barrett's scheme to resign and practice before the Office, and Tyner's part in that scheme, as set forth in the body of this report, was the climax of official perfidy, more evil in its results and more demoralizing to the public conscience than outright embezzlement or open theft.

Tyner has been summarily removed, and I recommend that Harrison J. Barrett be barred from practice before the Post-Office Department and that Christiancy be separated from the service by resignation or otherwise.

Tyner and Barrett were indicted on October 5, by the grand jury for the District of Columbia, for conspiracy to defraud (Exhibits F–35, F–36, and F–37).

MONEY-ORDER SYSTEM.

On April 8, 1903, the Postmaster-General advertised that sealed proposals would be received until June 2, at 12 o'clock noon, for furnishing the engraved and printed matter required in the transaction of the postal money-order business for a period of four years commencing September 4, 1903. In response to this advertisement, proposals were submitted by four bidders for supplying money-order forms. Every bidder was required to give bond as a guaranty of his ability to fulfill such contract, if awarded him.

The bid of Paul Herman, which was the lowest, aggregated $44,948 less than that of the Wynkoop Hallenbeck Crawford Company, the next lowest. Herman had formerly been employed by this company, which had held the contract for many years.

The Wynkoop Hallenbeck Crawford Company filed a protest against the contract being awarded to Herman, alleging that he was not a responsible bidder. Herman declared that he was able to fulfill the contract (Exhibit G); that he had given the $5,000 guaranty as required, and that he would further enter into any bond that the Department might ask for the faithful performance of the contract.

At the request of James T. Metcalf, superintendent of the Money-Order System (Exhibit G–1), a post-office inspector inquired into the financial responsibility of Herman, and on June 10, 1903, reported (Exhibit G–2) that Herman had a credit of $20,000 at the Mutual Bank in New York City; that he owned no plant, but had an option on rooms in a building well located in New York City; that he had contracted for some printing machinery, and that he was considered a man of good character and honest.

A short time after it was known that Herman was the lowest bidder, Superintendent Metcalf asked him to withdraw his bid, assuring him that if he did so he would endeavor to have him reinstated in his former position with the Wynkoop Hallenbeck Crawford Company. Herman inquired what would become of his $5,000 guaranty, and Metcalf assured him that the Department would allow him to withdraw it (Exhibit G–3).

Metcalf also wrote to the Wynkoop Hallenbeck Crawford Company and asked them to meet Herman for a conference (Exhibit G–3), with a view to fixing up their differences. Herman, however, declined to comply with the request of Metcalf to withdraw his bid, and insisted that the contract be awarded him, he being the lowest bidder and having complied with all the requirements of the Department.

In the meantime it was alleged that Metcalf's son was employed by the Wynkoop Hallenbeck Crawford Company at a lucrative salary, and that Metcalf was endeavoring to induce Herman, the lowest bidder, to withdraw his bid for the purpose of giving that company the contract.

By order of the Postmaster-General the matter was investigated. In a statement made by Metcalf (Exhibit G–3) he admitted that he had asked Herman to withdraw his bid and promised, should he do so, to try and have him reinstated in his old position with the Wynkoop Hallenbeck Crawford Company, and that he had written Hallenbeck asking him to fix things up with Herman.

In explanation of his efforts to induce Herman to withdraw, Metcalf said that he knew it would give the contract to the Wynkoop Hallenbeck Crawford Company, where his son was employed, but that it was a responsible firm, and having had the contract for a long time he knew the work would be done well; and that he did not consider Herman a responsible bidder because he did not have a plant that would justify the Department in giving him a contract of this magnitude. Yet, at the same time, he admitted that Herman as a mechanic was entirely competent to perform and supervise the work necessary in the execution of the contract, and that he had written Hallenbeck, endeavoring to secure Herman's reinstatement, because he was anxious that Herman should have charge of the work as heretofore, knowing his competency and ability.

Metcalf's statements were strangely inconsistent. He endeavored to persuade Herman to withdraw his bid when he knew that such withdrawal would cost the Department about $45,000. He admitted that Herman was thoroughly competent to do the work, and that he had requested Hallenbeck to reemploy him because of his special fitness to handle the money-order printing. He further stated that Herman had no plant; but at that time he had in his possession the report of an inspector showing that Herman was making necessary preparations to fulfill the contract. He also knew that Herman was then offering to give bond in any amount required by the Department that he would faithfully perform the work. The only reasonable conclusion to draw from Metcalf's attitude is that he wanted to favor the Wynkoop Hallenbeck Crawford Company, and was endeavoring to do so at the expense of the Department.

After receiving Metcalf's statement, the Postmaster-General summarily removed him from office. A copy of the letter of removal is submitted herewith, marked "Exhibit G–4."

Before closing this feature of this report it is proper to state that Herman, to whom the contract was awarded, is performing the work to the satisfaction of the Department (Exhibit G–9).

A continuance of the investigation was ordered, and the case assigned to Inspectors Letherman, Thomas, and Noile. Their several reports are submitted herewith, marked "Exhibits H, J, and K."

MAILING OF BOOKS.

The inspectors had not proceeded far with the investigation when they learned that young Metcalf was being paid a commission of 1⅛ cents per book for all money-order books that were shipped by the company to postmasters. This was paid him in addition to his regular salary.

Prior to September 4, 1899, the books of money-order forms were shipped by the manufacturer to the Department, and from there sent by registered mail to postmasters, as the necessities of the service required. The work of wrapping and addressing these books was done by clerks in the money-order division. There is no evidence that this system of mailing books was not entirely satisfactory. Metcalf, however, conceived the idea of having these books shipped direct from the manufacturer to the postmaster. His first movement toward a change of system was about June 21, 1899. Paul Herman (Exhibit H–7) says:

> Four years ago I was here in Washington as the representative of the Wynkoop Hallenbeck Crawford Company, and after the bids had been opened it was found that this company was the lowest bidder. Mr. J. T. Metcalf invited me to take a ride with him over the city. During our conversation he mentioned that he would like to make some other kind of arrangement different from what had been put in the specifications regarding the shipping of money-order books. He explained that he intended originally to have his son, Norman R. Metcalf, appointed as the agent to supervise the shipping of these books, but he could not do that on account of the civil service law. * * * He preferred, he said, to place this matter in the hands of the contractors. * * * "You tell Mr. Hallenbeck of this proposition and make him write a letter to me, expressing his willingness to enter into such an arrangement," or words to that effect, and that the price could be arranged after such a letter had been received from Mr. Hallenbeck.

Metcalf denies Herman's statement so far as it relates to his efforts to secure his son's appointment as agent to supervise these shipments. But young Metcalf (Exhibit K–9) indicates that his father had in mind such an appointment, and, in a measure, confirms Herman's statement.

It further appears that as a result of this conversation, on July 7, 1899, C. G. Crawford, vice-president of the company, wrote Metcalf (Exhibit K–8) submitting a proposition to mail the books "as requested" for 4 cents each. After further correspondence, 3½ cents was finally agreed upon, with the proviso that if this amount proved too small the Department would in the future take up the matter for adjustment. Following out this understanding, H. C. Hallenbeck, president of the company, on March 6, 1900, wrote Metcalf, stating that after six months' experience he felt 3½ cents was far too low a price for this work, and asked, on account of the great increase in the cost of labor, material, etc., that the price be increased to 6½ cents. And on July 25, 1900, he again wrote urging the necessity of an advance in price for mailing the books. In reply to this letter Metcalf, on August 7, 1900, wrote Hallenbeck, stating:

> The Department has in various ways so modified the terms of the contract in each case in your favor that practically the compensation for wrapping and mailing the

books has been considerably increased. In all of the numerous changes made in handling these forms no additional labor nor expense has been entailed upon your firm, but in each case the advantage is with you.

But he further added that since the Department had agreed to readjust the compensation for mailing, he had recommended that the price beginning with August, 1900, be fixed at 5¼ cents each, and inclosed a new contract for that amount. Crawford, for the company, acknowledged this letter with thanks and signed the contract as directed.

On August 21, 1900, Metcalf wrote Hallenbeck advising him that after a conference with the Postmaster-General 5¼ cents was considered more than should be paid, and asked him to give in detail the items of expense that made up the cost of shipping the books. To this Hallenbeck replied that N. R. Metcalf and Paul Herman were both out of the city, and that he would be unable to give him the information until their return. On September 15, 1900, Hallenbeck answered, submitting a detailed statement as to the cost of packing and shipping the books.

This statement was prepared by Norman R. Metcalf, and upon such statement the price paid by the Department was increased from 3½ to 4½ cents to date from August 11, 1900. In this statement of expenses, however, the commission that was paid young Metcalf does not appear.

USE OF LARGE BOOKS DISCONTINUED.

The contract for money-order forms that took effect September 4, 1899, called for five different sizes of books, containing, respectively, 500, 300, 200, 100, and 50 blank money-orders each. For each book shipped the contractors were to receive 3½ cents.

On September 26, 1899, Superintendent Metcalf discontinued the use of the books containing 300 forms, and on October 26 he discontinued the use of the books containing 500 forms. Thus within four months after the company had received the contract for mailing the books all the large sizes were discarded, and from that time books of 200 forms were the largest used.

The discontinuance of the use of the large books greatly increased the number of books to be shipped, which resulted in a corresponding increase of cost to the Department and commissions to young Metcalf. The following table shows the number of books shipped and the amounts paid Norman R. Metcalf for the year 1900:

Month of shipment.	Number of books shipped.	Amount.
1900.		
January	28,364	$330.91
February	20,391	237.89
March	24,586	286.83
April	18,849	219.96
May	16,993	198.25
June	14,613	170.48
July	12,566	146.69
August	11,042	128.82
September	15,075	175.87
October	18,110	211.28
November	16,923	116.66
December	14,852	254.04
Total	212,364	2,477.68

The sum paid was just 10 cents over 1⅛ cents per book for the books shipped. These payments continued in the same manner up to May 12, 1903.

At the beginning of this contract young Metcalf's wages were $15 per week, equivalent to $65 per month or $780 per annum. His duties were in no way increased by the company securing this contract for mailing money-order books. During the period that this contract was in force his wages were advanced from time to time until in May, 1903, he was receiving $30 per week (Exhibit K–9), showing that the bonus paid him out of the money received by the company for mailing the books was in no way computed as part of his legitimate salary or wages. The books of the company show that from December, 1899, to May, 1903, he was paid by check, independent of his salary, $9,547.17. Both the Metcalfs state that the father had no knowledge that this amount was being paid the son, but I am not inclined to credit their statements.

The only reason that Metcalf gives for changing the system of shipping the books was the inconvenience of handling them in the Department on account of insufficient room after moving into the new building. Metcalf also speaks in high terms of the efficiency of this firm. This, however, does not seem to be borne out by the records. The following letters were written by Metcalf to the company (Exhibit H–4):

APRIL 14, 1902.

Of late nearly all our work is delayed beyond what I think is reasonable, and it is so embarrassing and annoying that I am sure you will take some means to give us better service.

AUGUST 19, 1902.

We are being flooded with telegrams and our business disorganized because of lack of forms. I find, on investigation, that you are not shipping over an average of about 100 books per day, when we ought to have at least five times that number.

AUGUST 27, 1902.

While you were behind in shipping thirty-eight days when I wrote you last week, you are to-day in arrears forty-four days, and the condition of affairs is worse than at any time within my knowledge.

FEBRUARY 3, 1903.

I am compelled to again inform you that we are receiving some days as many as 6 to 10 telegrams and numerous letters to the effect that postmasters are without supplies of forms.

There are other letters of a similar character.

INFERIOR PAPER USED.

In November, 1899, the Jersey City Printing Company wrote the Postmaster-General complaining that the paper used by the Wynkoop Hallenbeck Crawford Company in printing money-order forms was inferior to that required by the specifications, and to permit the use of such paper was unfair to the other bidders. This letter was referred to Metcalf for an explanation, and in reply (Exhibit J) he defended the company vigorously, stating that the paper had been tested as to its tensile strength and that he believed it to be fully up to the contract sample. The specifications for the contract called for blue paper "to test not less than 45 points, weight of 500 sheets equivalent to 16-pound folio, and white paper of weight equivalent to 20-pound folio to test 46 points" tensile strength. Nevertheless, Metcalf was com-

pelled frequently to write the company as to the inferior paper used (Exhibit J–6). On January 22, 1901, he wrote:

> Test has been made of a sheet of domestic money-order paper recently transmitted by you to this office, and the tensile strength of this paper is found to be an average less than 31 points. * * * Recent observations show that the paper is not in quality according to the contract sample, and complaints to a like effect are being made by postmasters who use the paper.

Other similar letters were written.

Herman (Exhibit H–7) states that the tensile strength of the paper furnished by the Wynkoop Hallenbeck Crawford Company varied, but was: Blue, about 33 points instead of 45; and white, about 23 instead of 46; and that the weight of the white paper was 17 pounds and not 20, as called for by the specifications.

Herman's statement and Metcalf's letters confirm the allegations of the Jersey City Printing Company as to the inferior quality of the paper used. His statement is further corroborated by J. Horace McFarland in a letter to Metcalf (Exhibit J–8), wherein he asks that Metcalf write certain contractors insisting on "a closer adherence to the specifications with respect to paper."

PRINTING MONEY-ORDER FORMS.

For the 1899–1903 contract for money-order forms there were two bidders, the Wynkoop Hallenbeck Crawford Company, of New York, and the Dunlap Printing Company, of Philadelphia.

There are two kinds of money-orders, domestic and international. Bids were asked on two styles of printing for domestic money orders, lithographic and typographic, and one style on international, typographic. The specifications required that the schedule for money-order forms should be considered as a whole, though there is no reason why the domestic and international forms should not have been considered separately, they being different as to form.

The following table shows the bids of the two companies on the estimates submitted by Superintendent Metcalf:

Domestic money-order forms.

Size of books.	Estimated number books, contract term.	Bid of W. H. C. Co.				Bid of Dunlap Print. Co.	
		Cost lithographic.		Cost typographic.		Typographic.	Cost.
Five hundred	175,000	$0.49	$85,750	$0.48	$84,000	$0.52	$91,000
Three hundred	65,000	.39	25,350	.39	25,350	.33	21,450
Two hundred	70,000	.27	18,900	.26	18,200	.25	17,500
One hundred	90,000	.15	13,500	.13	11,700	.15	13,500
Fifty	75,000	.10	7,500	.07	5,250	.11	8,250
Total			151,000		144,500		151,700

International money-order forms.

Size of books.	Estimated number books.	Bid of W. H. C. Co.		Bid of Dunlap Print. Co.	
		Per book.	Cost.	Per book.	Cost.
Two hundred	10,000	$0.45	$4,500	$0.40	$4,000
One hundred	5,000	.39	1,950	.24	1,200
Fifty	4,000	.28	1,120	.12	480
Twenty-five	7,000	.15	1,050	.09	630
Total			8,620		6,310

Reissued orders.

Size of books.	Estimated number books.	Bid of W. H. C. Co.		Bid of Dunlap Print Co.	
		Per book.	Cost.	Per book.	Cost.
Four hundred	1,000	$0.60	$600	$0.79	$790

The total cost of printing domestic, international, and reissued orders under various bids, therefore, may be summarized as follows:

Wynkoop Hallenbeck Crawford Company:	
Domestic orders, lithographed	$151,000
International orders, typographed	8,620
Reissued orders, typographed	600
Total	160,220
Wynkoop Hallenbeck Crawford Company:	
Domestic orders, typographed	144,500
International orders, typographed	8,620
Reissued orders, typographed	600
Total	153,720
Dunlap Printing Company:	
Domestic orders, typographed	151,700
International orders, typographed	6,310
Reissued orders, typographed	790
Total	158,800

It will be observed from examining the foregoing table that by the lithographic process the Wynkoop Hallenbeck Crawford Company's bid on the 500-form books was 3 cents per book lower than the Dunlap Printing Company's bid, and on the 200-form books 2 cents higher. But, considering the estimated number of books to be used, the aggregate cost of those called for by the entire contract, the Wynkoop Hallenbeck Crawford Company's bid by the typographic process was $5,080 lower than the Dunlap Printing Company's, but by the lithographic process, $1,420 higher.

Upon the theory that it was desirable to have the domestic money orders lithographed, the contract was given to the Wynkoop Hallenbeck Crawford Company at the higher bid. In this connection, however, it is interesting to note the actual number of the different sized books used by the Department as compared with Metcalf's estimates, upon which bids were asked.

Instead of using 175,000 of the 500-form books, upon which the bid of the Wynkoop Hallenbeck Crawford Company was 3 cents per book lower than the Dunlap Printing Company, only 3,889 were used, while on the 200-form books, upon which the bid of the Wynkoop Hallenbeck Crawford Company was 2 cents higher than that of the Dunlap Printing Company, the number of books used was not 70,000, as estimated by Metcalf, but 802,779. The following table shows the total number and sizes of books purchased during the period of the contract, excluding 14,529 books of 400 pages, at 46 cents each, for which bids were not solicited and on which proper comparison can not be made:

Domestic money-order forms.

Size of books.	Number of books used during contract term.	Bid of W. H. C. Co.		Bid of Dunlap Printing Co.	
		Litho-graph.	Cost.	Typograph.	Cost.
Five hundred	3,889	$0.49	$1,905.61	$0.52	$2,022.28
Three hundred	1,031	.39	402.09	.33	340.23
Two hundred	802,779	.27	216,750.33	.25	200,694.75
One hundred	35,047	.15	5,257.05	.15	5,257.05
Fifty	8,712	.10	871.20	.11	958.32
Total			225,186.28		209,272.63

International money-order forms.

Size of books.	Number of books used during contract term.	Bid of W. H. C. Co.		Bid of Dunlap Printing Co.	
		Per book.	Cost.	Per book.	Cost.
Two hundred	26,767	$0.45	$12,045.15	$0.40	$10,706.80
One hundred	3,430	.39	1,337.70	.24	823.20
Fifty	5,861	.28	1,641.08	.12	703.32
Twenty-five	3,266	.15	489.90	.09	293.94
Total			15,513.83		12,527.26

Reissued orders.

Four hundred	1,313	$0.60	$787.80	$0.79	$1,037.27
Grand total			241,487.91		222,837.16

It will be observed from the above table that the actual cost of the money-order forms furnished by the Wynkoop Hallenbeck Crawford Company under their bid was $241,487.91, while if the contract had been given to the Dunlap Printing Company the cost would have been $222,837.16, a saving of $18,650.75.

There were 14,529 400-form books bought that were not called for in the specifications. For these the company was paid 46 cents each, while the 500-form book could be had for 49 cents. Why this size should have been ordered at a higher proportionate price, instead of the 500-form book, does not appear.

An analysis of the bids shows that while on the face of the estimate the Wynkoop Hallenbeck Crawford Company's bid was only $1,420 higher than that of the Dunlap Printing Company, yet upon the number of books actually bought it was $18,650.75 higher. The difference, $17,230.75, represents a net gain to the Wynkoop Hallenbeck Crawford Company as a result of Metcalf's discontinuing the use of the large-sized books. It further appears that this discarding of the large books served a double purpose—it increased the "graft" of young Metcalf and gave the company a greatly increased profit.

As heretofore stated, the Wynkoop Hallenbeck Crawford Company was given the contract because it was asserted that the domestic money orders should be lithographed; but in fact only a small part of them were printed by the lithographic process.

A statement of the lithographer employed by the Wynkoop Hallenbeck Crawford Company (Exhibit J–9) shows that from September

28, 1900, to July 3, 1903, only enough lithographic tints were printed for the money-order business by this company to make 65,256 books of 200 forms each, while during this period 611,476 books of 200 forms were furnished, showing that but 10 per cent of the books furnished were lithographed. The remainder, 546,220, were therefore printed by the typographic or cheaper process, and should have been billed 1 cent per book lower than the scheduled lithographic price. The Department, however, paid for lithographic work. This company, therefore, was paid 1 cent per book on 546,220 books, or $5,462.20 more than it was entitled to under the contract.

Complaint was made to the Department that money-order forms were being electrotyped, not lithographed, as required by the contract. In reply to this complaint Metcalf stated (Exhibit J):

> While I have no knowledge other than this statement that the contractor is making use of plates, presumably electrotypes, rather than transfers to stone, the fact remains that it is very difficult for even an expert to determine the difference between work executed by the two processes. * * * Hence, it would seem that this complaint, if it is based upon facts, merely alleges that the contractor is employing a process which to him may be cheaper, but which does not produce work inferior to the requirements of the public service, nor in any respect different from the specifications as far as appearance and quality of work is concerned.

If this statement is true, why, then, was not the bid of the Wynkoop Hallenbeck Crawford Company for printing forms by the typographic process accepted, instead of their bid for lithographic work? Thousands of dollars would thereby have been saved to the Department. But instead, they were paid lithographic prices for typographic work, in violation of the specific terms of their contract, and the Government thereby defrauded out of $5,462.20. Add this to the $17,230.75, and we have $22,692.95, which was paid to this company over what it was entitled to upon the bids and specifications, resulting in a corresponding loss to the Department.

The specifications required that the money-order forms should be printed with a binding stub 1 inch long, with perforations between the form and binding stub, between the advice and binding stub, and between the advice and receipt, so that the orders and advices could be easily torn out when written. The books containing 500 and 300 forms were to be sewed with binders' thread. For the smaller books wire-stitch binding was prescribed.

Metcalf not only discontinued the use of the large-sized books, but he permitted the company to change the form of binding so as to save the stub and the stitching, the book being fastened at the end with glue in tablet form. Hallenbeck (Exhibit J–10), in a letter to Metcalf, stated that by discarding the stub he would be able to get another row of orders on one sheet and save a great deal of presswork.

By relieving this company of the expense of perforating the orders and of binding the books with thread and wire, as required in the contract, Metcalf saved it thousands of dollars on the paper and labor necessary in the execution of the contract.

COMBINATION OF PRINTERS.

The principal bidders for supplies for the money-order service are the Wynkoop Hallenbeck Crawford Company; the Metropolitan Printing Company, both of New York; the Dunlap Printing Company, of Philadelphia, and the J. Horace McFarland Company, of Harrisburg, Pa.

It appears from the correspondence between J. T. Metcalf and J. Horace McFarland that there was a combination of these four companies for the purpose of raising the price of supplies furnished.

It is strange that the superintendent of the Money-Order System should have been consulted by these contractors as to their scheme to combine and raise the price of supplies which they expected to furnish the Department. On March 23, 1903, McFarland wrote Metcalf (Exhibit J–8):

I had on Saturday a very satisfactory and somewhat surprising conference with the three other bidders for the last money-order contract, it having appeared that the Metropolitan people were going in again, and going in strongly. Indeed, they were intending to pursue the same reckless and absurd tactics which made their work so unsatisfactory, and you can judge from their price on the three items you are reporting upon in yours of March 20 just how deep they have been willing to go. * * * The whole matter has been very satisfactorily discussed. * * * I will gladly come to Washington to consult with you about it, if you so desire, after which there will be another meeting of those interested in New York. * * * I am empowered to ask you, on behalf of the four bidders on the present contract, permission to receive proofs of the specifications as soon as they are available, and in advance of their issue in the general way, if you believe this compatible with the public service. Our action with respect to the Metropolitan people will result, I am sure, in a very great improvement of performance by them, but under conditions existing up until Saturday at 1.30 p. m. I felt that it was important for public service that the bids they were about to make should be rejected, or very sharply scrutinized.

McFarland seems to have been very greatly concerned about the public service. On April 6 he again wrote Metcalf (Exhibit J–8):

You are aware that under your wise permission there is now going on an attempt at an arrangement between those who have been doing the money-order work, which will prevent the ruinous prices of the past. * * * If it would be practicable for you to send a letter to each of the other three contractors who are involved so far, stating that you propose to insist upon a better standard of work, as well as a closer adherence to the specifications with respect to paper, you would give me a good weapon to work with in the conference with these gentlemen.

In answer to these and other letters, Metcalf, on April 10, wrote McFarland (Exhibit J–8):

I hope that you will not feel that because of failure to receive answers to several of your letters that matters named by you have not been given attention. Such is not the case. * * * As matters seem to be progressing satisfactorily, no formal reply appears to be necessary.

On April 11, McFarland again wrote Metcalf (Exhibit J–8):

The Metropolitan people had but one set of the proofs at hand on Thursday. For very many reasons I feel that I am not misusing the English language in saying that this outfit is simply extraordinary. Nothing but the roughest kind of talk has prevented them from plunging in exactly the same way that was so disastrous previously.

It will be observed from the foregoing letters and other correspondence in the same exhibit, that the "Metropolitan people" were inclined to be rather independent, but finally were brought into the combination.

Advance copies of the specifications were forwarded as requested by McFarland. With this and other advance information secured from the superintendent, these companies were able practically to control the bids on almost all of the blanks, especially those used in large quantities. The result of the combination was an advance in prices as desired. To illustrate:

	Old bid, 1899–1903.	New bid, 1903–1907.
The J. Horace McFarland Company—		
Daily statement of stations	$1,225	$1,750
Continuation sheets for domestic statements	177	324
Continuation sheets for international statements	2,805	4,412
German card orders	473	1,037
Receipts for domestic forms	224	510
Press copy books	4,842	6,747
Metropolitan Printing Company:		
Notices to payee of money order	576	1,189
Three items of belt checks	523	1,312
Items from statement schedule	12,385	18,949
Dunlap Printing Company:		
Ordinary money-order applications	20,500	26,650
International money-order applications	2,139	2,883
Remittance letters	4,182	5,476
Letters of inquiry and second advice	441	840
Memorandums of remittances	833	1,500
Registers, cash books, and record books	18,609	24,856
Wynkoop Hallenbeck Crawford Company:		
Exchange lists under item 33	142	429
International letter forms under item 59	70	139
Duplicate advices of international orders	95	155
Advertising placards	260	347
Card index duplicate	280	440
Special notices of repayment	388	592
Registers furnished postmasters	7,448	9,611

The following table sets forth the advance in cost of the items which would have been awarded these companies had Metcalf's recommendations been followed (Exhibit G–5):

Bidders.	Number of items.	Cost under old contract.	Same quantities, new bid.	Net increase.	Per cent.
J. H. McFarland Company	46	$13,586.82	$19,661.71	$6,074.89	44.7
Metropolitan Printing Company	76	18,746.87	27,773.96	9,027.09	48.1
Dunlap Printing Company	86	85,983.80	105,086.76	19,102.96	22.2
Wynkoop Hallenbeck Crawford Company	33	10,443.69	13,810.14	3,366.45	32.2
Total	241	128,761.18	166,332.57	37,571.39	29.1

The preceding estimates are based upon the amount used during the period of the last contract. However, there would have been a great many more blanks used during the ensuing contract, because of the large increase in the money-order business of the country, and the profits to these companies would have been correspondingly increased.

It clearly appears that Metcalf was devoted to the interests of this combination. There were two other bidders, the Wilkens Printing Company, and the Guggenheimer Printing Company, that were lower on 37 items than any of the companies in the combination. On the aggregate of these items the two companies were $2,189.74 cheaper than the next lowest bidders. Metcalf, in forwarding the report of the committee on awards (Exhibit G–5), recommended, because of the small amount involved, that the bids from the Wilkens Printing Company and the Guggenheimer Company be set aside and the awards given to the present contractors, stating:

> If set aside, the awards would be about evenly divided between the Public Printer and the four remaining present reliable contractors. * * * I think that the interests of the public service will be the better protected if the two bids referred to be dropped.

When knowledge of this combination was brought to the attention of the Postmaster-General, he refused to approve the awards made to these four companies, and ordered a new letting. September 5 was

fixed as the date for opening new proposals. McFarland complained most bitterly of the Postmaster-General's action and declined to bid. The Metropolitan Company resubmitted its old proposals, while the Dunlap Company and the Wynkoop Hallenbeck Crawford Company submitted new bids. The result was that the aggregate amount of the bids on the same items, in like quantities as referred to in the foregoing table, was $131,916.12, a net decrease of $34,416.45. But this does not represent the entire saving to the Department, as the figures are based upon the amount used during the last four years. Upon the amounts estimated to be used during the next four years the figures are as follows:

Cost at rates under 1899–1903 contract	$190,307.81
Cost at rates under rejected bids	232,628.63
Cost at rates under new bids, September 5	181,504.47
Total decrease from rates of 1899–1903 contract	8,803.34
Total decrease from rates of rejected bids	51,124.16

It will be observed, therefore, that by rejecting the bids of this combination which Metcalf had fostered, the Department saved $51,124.16.

The new proposal of the Dunlap Printing Company on the schedule covering money-order applications was $26,568.50 lower than its rejected bid; and that the Wynkoop Hallenbeck Crawford Company, $45,248.50 lower than its former bid. These figures cover all the items where comparisons are practicable, but not all the items called for under the advertisement.

EXAMINATION OF SUPPLIES BEFORE SHIPMENT.

The specifications provide that work shall be carefully inspected before shipment, but no examination seems to have been made other than that made by the company. The necessity for departmental scrutiny is indicated by correspondence with the postmaster at St. Louis, submitted herewith, marked "Exhibit J–12."

From this it appears that the Dunlap Printing Company in filling requisitions for the money-order applications had been sending them out in blocks alleged to contain 250 blanks each. An inspection of a number of these packages by the St. Louis postmaster resulted in finding the number ranging as follows: 211, 223, 212, 216, 233, 230, 199, 227, 225, 224, 227, an average of 221 forms to the block, or 12 per cent short of the number for which bill was rendered to the Department. It was also discovered after Metcalf's dismissal that shipments to the Department were also short, the blocks billed at 250 each averaging only 225.

Under the present system of having the contractor ship direct without the inspection of representatives of the Department it is possible for short shipments to be made, as the postmasters throughout the country, as a rule, would rarely count and verify supplies of this kind when furnished, but accept the count as correct.

Paper and printing of an inferior quality also can be furnished because the postmasters know nothing of the requirements of the Department, and if they did few of them would have the technical knowledge necessary to determine whether such shipments complied with the specifications.

$500 IMPROPERLY PAID.

It appears that in April, 1900, a bill for $500 was rendered by the American Accounting Company, of Chicago, Ill., for infringement in the adoption of the current duplicate money-order and advice form. If this company had a legitimate claim for infringement upon its form, such claim is amply covered by the following article of the contract of 1899–1903 (Exhibit J–11), which provides that the contractor shall—

keep harmless and fully indemnify the United States and any of its officers or agents from and for all damages or claims for damages, costs, or expenses in law or equity that may at any time arise or be set up for any infringement of the patent right or copyright of any person or persons in consequence of the use by the Post-Office Department, or by any of its officers or agents, of any blanks, blank books, paper, printed or lithographed matter of any kind described in the specifications attached hereto and furnished by the contractor under this contract.

Why the Wynkoop Hallenbeck Crawford Company should not have been required to fulfill that part of the provisions of its contract does not appear. Upon Metcalf's approval, the Auditor for the Post-Office Department authorized the payment of the claim, and it was not charged to the account of the company as the contract authorized.

CONCLUSION.

Metcalf entered the postal service on February 4, 1882. He became Superintendent of the Money Order System on September 16, 1897. The securing of employment for his son from a contractor that furnished money-order supplies was highly improper.

The scheme of having the Wynkoop Hallenbeck Crawford Company mail the money-order forms direct from their factory originated with Metcalf, as it was suggested to a representative of the company by him. He recommended that the price first be fixed at 3½ cents and afterwards that it be raised to 5¼ cents.

From the date of this contract for mailing the books, his son received 1⅛ cents on every book shipped, which amounted to more than three times his regular wages. The payment of this money to his son was doubtless the motive that induced Metcalf to change the system of mailing.

The discontinuing the use of the large-size books, upon which the Wynkoop Hallenbeck Crawford Company's bid was the lowest, within sixty days after the contract became effective, and confining orders almost wholly to the 200-form size upon which their bid was higher than that of the competing firm, was without justification and apparently for no other purpose than to increase the commission to his son and the profits to the company at the expense of the Department.

The payment of $500 to the American Accounting Company seems to have been a voluntary gratuity to the Wynkoop Hallenbeck Crawford Company and in direct violation of the terms of the contract.

His collusion with the four principal bidders in their combination to advance prices would, if carried out, have resulted in an increased cost of money-order supplies for the contract period of over $50,000. This transaction alone would have justified his removal from office.

On October 5, 1903, J. T. Metcalf, N. R. Metcalf, and H. C. Hallenbeck were indicted by the Federal grand jury of the District of Columbia for conspiracy to defraud the Government (Exhibits G–7 and G–8).

DIVISION OF FREE-DELIVERY.

Many charges were made against A. W. Machen, general superintendent of the Division of Free-Delivery; and while of a serious character, they were vague and indefinite as to facts. It was therefore determined to make a systematic investigation of the division, beginning with Machen's appointment as superintendent. The supervision of this work was assigned to Inspector M. C. Fosnes, who has been assisted by from 10 to 20 inspectors, as the necessity of the case required. Mr. Fosnes's report is submitted herewith (Exhibit L).

Before considering in detail Machen's administration of the Division of Free-Delivery, it may be well to refer briefly to his record prior to his appointment. He first entered the postal service as a clerk in the registry division of the Toledo, Ohio, post-office in 1886; in March, 1887, he was appointed assistant postmaster. George E. Lorenz, whose name will be frequently mentioned in this report, was at that time postmaster.

On July 31, 1890, Lorenz and Machen retired from the postal service as a result of a political change in the national administration. Machen then engaged in private business; but was unsuccessful, having lost what money he may have invested. In 1893, without income or employment, he came to Washington in the hope of securing some kind of a Federal position under President Cleveland's second administration.

On May 6, 1893, he was appointed as assistant superintendent of Free-Delivery, and on September 16 following he was made superintendent. At that time he was a bankrupt financially, with numerous judgments recorded against him. He was not only a bankrupt, but his reputation for business integrity was bad. When he left Toledo he borrowed from friends large sums of money, for a man of his financial station, upon the representation that he needed means to move his family to Washington, promising to repay these loans out of the first salary that he received. None of them was paid, except a few where the lenders became so importunate that Machen thought it wise to satisfy them. He seems to have been a persistent borrower, even after he came to Washington. Various fraudulent representations were made to secure loans from friends, and upon one occasion he even resorted to forgery (Exhibit L–1). Financial obligations rested lightly upon him. He never paid a debt except from motives of policy. Moral responsibility seemed to have no weight with him.

While assistant postmaster at Toledo (Exhibit L–1) some money lenders were making loans to clerks in the office at exorbitant rates of interest. It appears that Machen, who had charge of payment of salaries, arranged with these usurers to insure settlement of these loans for a percentage of their profits, and at the end of the month would keep out of the clerks' pay the amount due and settle with the brokers, retaining his share of the profits.

James M. Brown was postmaster at Toledo when Machen came to Washington. Being anxious to hold the office until the expiration of his commission, he suggested to Machen that if he could help him and the "rest of the boys," meaning his subordinates, to hold their places until the four-year term expired it would be appreciated. Shortly afterwards Brown received a request from Machen to pay a note for him at a Toledo bank, amounting to $400. Brown called the clerks

together, told them of Machen's request, and suggested that it probably would be wise to comply. They apportioned the amount according to the salary of each and took up the note. No part of this money was ever repaid except $75, which was forced out of Machen by J. C. Rike, one of the clerks. After Rike had left the post-office he importuned Machen so persistently, both in person and through his Member of Congress, that Machen finally sent $75 to Brown, which was divided among the contributors.

Exhibit L–1 sets forth in detail the story of numerous personal friends from whom Machen borrowed money in amounts running from $50 to $500 each, and with few exceptions none of these loans was paid. Numerous and urgent necessities were alleged in his appeals to friends for loans and all kinds of promises made as to prompt payment when due; but when the debt was once incurred he apparently dismissed all further thought of it from his mind. When an obligation was paid it was usually brought about by the indignant lender bringing to bear some political pressure which Machen did not think it wise to resist.

As has been said, Machen was appointed in the Free-Delivery Service May 6, 1893. He was dismissed May 27 last. It will be observed, therefore, that his service in the Department covered a period of ten years. The story of his official record is an interesting study, and probably has no parallel in the history of the postal service.

During the first years of Machen's service in the Department he frequently asserted to friends that he had oil stocks and other property in Ohio that were yielding him a large income. But the most careful inquiry by the inspectors has demonstrated that he had no property of any kind when he came to Washington.

He is a man of resources and of strong personality. When he became the superintendent of the Division of Free-Delivery he at once assumed the position of an independent bureau officer. He had not been in office thirty days before he began to write members of Congress and Senators inviting them to call at his office to discuss various kinds of departmental business. For a period of ten years, with unusual skill, he ingratiated himself into the confidence and good graces of influential public men.

An examination of his correspondence during the Cleveland Administration shows that he posed at that time as a strong and aggressive Democrat, frequently injecting political remarks into letters of an official character. But during the closing days of that Administration he very skillfully shifted, and after the 4th of March, 1897, became greatly interested in the welfare of the McKinley Administration. He acquired new associates, and was quite successful in establishing intimate relations with men who were influential at the White House.

No story can give so clear an idea of Machen's methods of administration as a simple statement of facts as shown by the records and collected from the sworn testimony of men who had business relations with the branch of the service under his management.

CARRIERS' STRAPS.

As before stated, Machen was appointed superintendent of Free-Delivery on September 16, 1893. On September 20, four days later, he wrote the First Assistant Postmaster-General, recommending that

leather straps be substituted for twine used by letter-carriers in tying up mail arranged for delivery upon their routes. Machen stated that the straps could be had for 10 cents each (Exhibit L–3); that their use would be much more economical than twine, and he proposed that a supply of them be purchased. Following out this recommendation the First Assistant Postmaster-General, on November 26, ordered 3,240 straps from George D. Lamb, of New Haven, Conn. Three sizes were included in this order, the price being 12½, 15, and 17½ cents per strap, respectively. And on December 6, just 10 days later, an additional order for 15,000 straps, signed by Machen himself, was given. And this has continued for a period of nearly 10 years, until about 1,000,000 straps have been furnished at an aggregate cost of $137,217.39. No competitive bids for straps were ever requested, and no other strap than that made by Lamb has been used.

The use of straps was pushed with great vigor. They were sent out to postmasters throughout the country, without requisition or notice, and in far greater quantities than were needed. At one time when Machen was absent in the West, the acting superintendent of Free-Delivery, evidently not understanding his purpose, wrote him:

> Postmasters at small offices, commencing with A, are flooding us with inquiries about the straps they are receiving and of which they have received no information.

In the inspection blank for post-offices, at Machen's request, the question was asked: "Are carriers using straps furnished them for routing their mail?"

In his letter of September 20, 1893, recommending the use of straps, he estimated that $1,750 would cover the total annual expenditure for that purpose; but the record shows that from their adoption to the date of Machen's removal they have cost the Department over $14,000 a year.

The above refers to "tie straps," or those used by the carriers in fastening together mail for delivery on their routes.

SHOULDER STRAPS.

In the free-delivery service there is also used a strap which goes over the shoulder of the carrier and is attached to his satchel. This is a part of the satchel and will be treated in detail later under the subject of carriers' satchels. But, beginning with August, 1894, these straps were bought from George D. Lamb. And during the succeeding years Machen ordered 90,303, at a cost of 39½ cents each, making a total expenditure for this purpose of $35,669.71. The entire number of the two varieties of straps used under Machen's administration, as nearly as can be ascertained by the departmental records, was 1,052,211, costing $172,887.10. The accounts of the manufacturer, however, show a consumption of 20,000 more, at a cost of $3,338.88. making a total expenditure for straps during the nine and one-half years of $176,225.98. The departmental records have not been perfectly kept, and it is believed that the manufacturer's record is the more nearly accurate.

The method of payment for these articles varied. For a number of years the tie straps were paid for direct by postmasters to whom they were sent, and credit was taken for such disbursements in their quarterly accounts. During the last four years payments have been made by Departmental warrants. Tie straps, by Machen's order, have been

sent by the manufacturer, in large quantities, direct to postmasters; and also many thousands of them in bulk to the Department. That Machen was determined to use this particular strap regardless of its cost or desirability to postmasters or carriers, is shown by the following correspondence.

July 24, 1897, the postmaster at Worcester, Mass., wrote (Exhibit L):

Referring to the authorization dated July 14, just received from your office, to pay George D. Lamb, New York, N. Y., 12½ cents each for 300 No. 1 carriers' straps, 15 cents each for 150 No. 2 straps, and 17½ cents each for 100 No. 3, I beg leave to ask your attention to my letter of May 29, 1897, and to suggest that at the prices above quoted the cost of these straps would be $77.50. At the prices mentioned in my letter above referred to, the same number of straps of the several sizes could be supplied here at the cost of $39.25, the latter straps being also in my judgment, and in that of my carriers who have used both, more serviceable and convenient in use.

The reply to this letter, initialed by Machen, is as follows:

Replying to yours of the 24th ultimo, I have to say that the straps for this year were purchased of Mr. George D. Lamb, in accordance with contract with this office.

This bold statement is made in the face of the fact that no contract had ever been entered into with Lamb. They were still purchased under the guise of experimental service, the price being fixed by verbal agreement between Machen and Lamb.

On May 11, 1899, W. D. Stinson, postmaster at Augusta, Me., wrote:

Previous to my coming to this office verbal instructions were given to the carriers that they must not use rubber bands, but should use straps, in making up mail. * * * The use of them is attended with considerable annoyance and inconvenience. * * * Recently I received a peremptory order in one of your letters that these rubber bands must not be used, but that straps should be used exclusively. * * * In talking with the carriers yesterday they signified entire readiness to pay from their own pockets for rubber bands if they might be allowed to use them, and easily showed me that the use of straps would take away considerable aggregate time from their work. * * * I would rather really pay for the bands myself than to lose the time necessary in making up the mail.

To this letter no reply was made.

The question naturally arises, Why were these straps forced upon postmasters against their protest and at excessive prices? The cause is revealed in the following story:

George D. Lamb, from whom the straps were bought originally, died about three years ago, and with him is buried the secret of the origin of his business with the Department. His widow inherited the business, and the active financial management of the same was placed in the hands of her son, George B. B. Lamb, a reputable lawyer of New York City.

George D. Lamb did business with the Department direct. Nowhere in the correspondence or in any of the business transactions is there any allusion to an agent or representative of any kind, in Washington or elsewhere. But it appears that a man named W. C. Long quietly appeared at regular intervals at Mr. Lamb's office and collected a specific sum of money. This is the same Long who, through the friendship of Louis, secured the contract for inking-pads in 1898. The story is told by George B. B. Lamb, the son, as follows (Exhibit L–5):

I am a practicing attorney in the city of New York, and the only son of George D. Lamb, the patentee and proprietor of the strap that has been in use for a number of years by the Post-Office Department, known as the Lamb National strap. My father died on March 21, 1900. During his lifetime he had on one occasion introduced me to a man named W. C. Long. This introduction occurred several years

before my father's death, in my father's office. At that time my father told me that he was paying Mr. Long 2½ cents per strap for the straps furnished the Post-Office Department. He did not say exactly what his relations with Mr. Long were, nor why he paid this percentage. My best recollection is that I saw Long only at one time other than this at my father's office, possibly a year later; that is, during my father's lifetime. Shortly after my father died Long called upon me, I should say about July, 1900. He said to me, "You know I have been representing your father in Washington, and I suppose that you want me to continue in the same capacity for you." I told him I would think it over.

My mother has inherited the business of my father by his will, and I told her of this interview and she left the matter to my judgment. I did not know what the connection was between my father and Mr. Long, nor what Mr. Long's connection was in Washington, but I felt that I ought to continue the payments to him because I feared that in some way or other, if I did not do so, we would not be called upon to furnish any more straps to the Post-Office Department. I did not get this impression from anything that he told me or anything that he did, but it was in a sense of self-protection that I decided to continue the payments to Mr. Long. * * *

Some time along in the early part of 1901, at Mr. Long's second visit to me, he said he thought he ought to have 5 cents on the shoulder straps, that my father had agreed to that, but I told him that I could not do anything of the sort, and we finally compromised on 4 cents on the shoulder straps from then on.

The above was related by Mr. Lamb frankly. He believed that his father felt he had a meritorious article and that he yielded to the necessity of conditions to secure its adoption by the Department. But it should be said to the credit of Mr. George B. B. Lamb, and Mr. James Beveridge, the present manager of the business, that, unlike most of the dealers encountered in the course of this investigation, they stated frankly to the inspectors, without hesitation, apparently all they knew about the transaction of their company with the departmental officers. According to the most accurate estimate that can be given, the Department has purchased about 1,100,000 of these straps, for which Lamb paid Long contributions aggregating about $30,000.

The W. C. Long referred to was formerly a laborer in the Supply Division of the Post-Office Department, with compensation at $660 per annum. In August, 1893, he resigned and became, ostensibly, an insurance agent; but he has done little business in that line, and had no other known occupation; yet, in one bank in this city, during the last three and a half years, he has deposited in his personal account about $35,000.

During the fiscal year 1902 he collected from the Lamb firm alone $9,140.22. A part of this money has been traced directly into the hands of Machen, and the inspectors have evidence that Machen received 60 per cent of the gross amount paid. Long and Machen have been indicted (Exhibit L–6) by the Federal grand jury in the District of Columbia, together with a man named Stern, for conspiracy to defraud in connection with these transactions; and much of the evidence which would otherwise be submitted as exhibits with this report is in the hands of the district attorney to be used in the trial of the criminal cases that have been instituted.

CARRIERS' SATCHELS.

The satchels in which the carrier's mail is deposited for delivery upon his route are purchased by the Department under contracts running for a period of four years. These contracts are signed by the Postmaster-General, one copy is retained in the Department, one given to the contractor, and one filed with the Auditor for the Post-Office Department.

BOYLE CONTRACT.

On June 25, 1894, a contract was executed with John Boyle & Company, of New York, for furnishing these satchels for four years from July 1, 1894. The strap which suspends the satchel from the carrier's shoulder was made by the specifications a part of the satchel, to be furnished by the contractor. There were four varieties of satchels, prices being $1.93, $1.98, $2.75, and $2.75.

Boyle & Company's contract became operative July 1, 1894. The first order given for satchels was August 7; then six others, as follows: August 9, 10, 11, 14, 15, and 16. These orders were filled according to the specifications of the contract, Boyle & Company furnishing the satchels with straps.

On August 18 a letter bearing Machen's initials was addressed to Boyle & Company, which reads as follows:

I have instructed George D. Lamb, of New Haven, Conn., to ship you 500 of his shoulder straps for satchels. Please attach these to the 500 satchels ordered from your shop, that they may be thoroughly tested.

In reply to the above letter Boyle & Company, August 21, said:

Are we to understand that the same are to be used upon all satchels ordered and furnished without regard to number or destination after receiving the straps, and if so shall we notify the Department where the same have been sent, so that reports of results can be called for?

On August 18, the same day that Machen wrote Boyle & Company, he also wrote George D. Lamb, instructing him to forward 500 shoulder straps to Boyle & Company. This was the beginning of the shoulder-strap deal between Lamb and Machen, referred to previously. These straps were "tested" continuously for nine years, until Machen was removed from office.

Again, on November 19, Boyle & Company telegraphed:

Your telegram ordering us to use the shoulder straps sent by George D. Lamb received. Your orders will have our best attention.

And on January 4, 1895, Boyle & Co. again telegraphed:

Shall we furnish satchels with regular straps or wait for Lamb's?

And as late as July 30, 1897, they wrote:

It is very necessary for us to know whether you are going to furnish us with the new straps which we have been putting on the bags for the last two years. * * * Please let us know at once what we are going to do about the matter.

The only reply to the last letter was an order to Lamb to ship 3,000 shoulder straps to Boyle & Company.

During the life of the Boyle contract 20,784 shoulder straps were sent him, for which the Department paid $8,199.69. No deduction was ever made from Boyle & Company's bills on account of having been relieved from furnishing the straps; and Boyle states (Exhibit L–7) that he never was asked to make any reduction.

At this time Long and Machen were receiving only 2½ cents each from Lamb for these straps. The Department, therefore, was mulcted in the amount of $8,199.69, that Machen and Long might receive $519.30.

STERN CONTRACT.

The contract with Boyle & Company expired June 30, 1898, and bids were again requested for the supply of satchels for a period of four years from that date. A committee was appointed by the Post-

master-General to open the bids and award the contract. This committee consisted of A. W. Machen, T. B. Marche, his chief clerk, and D. P. Leibhardt, father of his stenographer. There were five bidders, one of whom was Boyle & Company. Upon the recommendation of this committee the contract was given to Leopold J. Stern, of Baltimore, who was not a manufacturer of leather goods, but a dealer in slate goods and plumbers' supplies.

Stern was a young man of limited means. The specifications called for a satchel with leather strap, minutely described. Boyle & Company, in their bid, offered to furnish satchels with a regular strap at specific prices, or to equip them with another strap for 8 cents additional, this strap having a patented buckle which made it slightly more expensive.

The contract, as recommended by the committee, was awarded to Stern and executed June 17, 1898. It provided that he should furnish satchels with straps attached. Yet, on June 16, one day before, an order was sent to George D. Lamb to ship 6,000 shoulder straps to Leopold J. Stern, of Baltimore, Md. And thus Stern was relieved of furnishing the straps, in violation of the specific terms of his contract, even before the contract was executed. No deduction was ever made from his bills to the Department during the four years of the contract.

Machen stated that Stern was relieved from supplying these shoulder straps because of an advance in the price of leather, incident to the Spanish-American war; that Stern complained that he was losing money on the contract, and in a spirit of generosity the Department relieved him of furnishing the straps. The record, however, shows that the specifications upon which Stern prepared his bid were not sent him until May 7. And his bid was not submitted until May 25, at which time war had been in progress more than a month, and the battle of Manila had been fought.

It further appears that one day previous to the execution of the contract, and a week before an order was given for satchels, Lamb was ordered to ship 6,000 straps to Stern, at Baltimore. Stern stated (Exhibit L–10) that he was relieved from furnishing the straps by George M. Allen, chief clerk to the First Assistant Postmaster-General, and Thomas B. Marche, chief clerk to Machen. Both of these men are dead, and it is easy to attribute any statement to them; but the claim that these two subordinate clerks could change or modify a contract executed by the Postmaster-General is so manifestly ridiculous that it needs no refutation.

Stern, during the period of his contract, was supplied with 55,700 shoulder straps at a cost to the Department of $22,001.50. During a part of this time Lamb paid Long 2½ cents each as bonus on straps. But afterwards, during the latter part of the contract, he was required to pay 4 cents each. This, however, was not all of the interest Long and Machen had in Stern's contract. The value of the straps required by the specifications is estimated at 25 cents each, which, on the 55,700 that Stern was relieved from furnishing, would amount to $13,925. There is evidence (Exhibit L) that Stern paid Long during two and a half years of the period of this contract at least $5,662.63, and that this amount was divided between Long and Machen. So that during the Stern contract Long and Machen not only received a commission from Lamb on the straps furnished, but were also paid by Stern for the straps which they furnished him. And the Depart-

ment was defrauded out of $22,001.50 by these three men. Long does not claim to have been an agent of Stern in any way, directly or indirectly.

INFERIOR GOODS.

The loss to the public service by this conspiracy of Stern, Long, and Machen, is not measured by the direct loss of $22,001.50. The satchels furnished by Stern were of a cheap and inferior grade.

On September 26, 1898, the postmaster at Covington, Ky., wrote:

I have received and paid for 6 carriers' satchels from contractor Stern, of Baltimore. * * * All of these satchels seem to be of an extremely worthless character, being made apparently of sheepskin. * * * Would like to have you forward me, through some responsible contractor, 6 good ones.

September 30, 1898, the postmaster at Davenport, Iowa, wrote:

I have to report the receipt this day of 6 leather satchels from Leopold J. Stern, of Baltimore, Md. I would respectfully say that these satchels are of a very inferior quality.

October 14, the postmaster at Chicago, wrote:

A number of collectors' satchels have been received at this office from Leopold J. Stern, the manufacturer, at Baltimore. Some of them have been put in use recently, and complaint is already made of imperfections in their construction. * * * The satchels will not be serviceable unless the workmanship on the balance is better than on those that have already been put into use. It occurs to me that possibly the satchels may not be exactly according to specifications, and have therefore deemed it proper to call attention to the matter.

Machen, being engaged in a criminal conspiracy with this contractor to defraud the Government, was not in a position to require him to comply with the specifications of the contract, and as a result worthless goods were put upon the Department. Machen, Stern, and Long were indicted on July 31, 1903, by the Federal grand jury in the District of Columbia for conspiracy to defraud; a copy of the indictment is submitted herewith (Exhibit L–6).

CRAWFORD CONTRACT.

On June 30, 1902, the contract with Stern expired and a new contract was entered into for a period of four years from that date with the Postal Device and Lock Company, of New York, represented by William G. Crawford, of Washington, D. C.

Crawford was the deputy auditor for the Post-Office Department under the last Cleveland Administration, serving from June 12, 1893, to September 15, 1897. Since that time he has lived in Washington, his business apparently being that of a departmental attorney or lobbyist. As deputy auditor he became familiar with the affairs of the Post-Office Department and intimately acquainted with Machen.

The specifications for satchels upon which bids were received for this contract were the same as under the two previous contracts, and the description of the shoulder strap to be furnished with the satchel exactly the same as formerly. Previously the satchels had been of leather, but inserted in the specifications this time was the following vague and ambiguous paragraph:

Proposals to furnish satchels of other material than those specified in these specifications will be considered if it is shown that the materials are better adapted for satchels used in the Free-Delivery Service.

Nine bids were received, all but one for leather goods as advertised. This paragraph, which did not attract the attention of anyone but

Crawford, proved to be an important provision in the specifications, and was doubtless placed there for a purpose.

Crawford, of the Postal Device and Lock Company, submitted a proposal to furnish satchels made of "pegamoid" or "fabricoid" leather. This "pegamoid" or "fabricoid" is an English patented process by which cotton duck or other materials are coated with a waterproof substance in imitation of leather. It is waterproof, and is used by the Navy Department as a covering for cushions used on vessels. It is not so expensive nor is it so durable as leather.

The committee that year was composed of John D. King, employed in the rural delivery service, who at that time had great confidence in Machen; Emanuel Speich, a subordinate clerk in Machen's office, and who is now one of his bondsmen in the criminal cases that are pending against him; and James E. Bell, superintendent of carriers of the Washington City post-office. This committee, after examining the merits of the "pegamoid" satchels submitted by Crawford, recommended that he be given the contract, and on June 25 it was awarded him at the following prices: Class A, $2.19; Class B, $3.16; Class C, $3.15. Thus a contract was entered into for a period of four years to supply carriers' satchels made from an untried coated cloth, at prices higher than had been paid for leather satchels under former contracts. It is presumed none of the other bidders thought that satchels made from this material would be accepted by the Department, since they submitted bids only for leather satchels. The inspectors when investigating this case secured figures on satchels made of this material from three of the firms that had bid at this letting, and the prices offered were $1.16½, $1.75, and $1.79, respectively, on the "A" satchel, for which Crawford received $2.19. No effort seems to have been made by the committee to get bids from other manufacturers on cloth satchels, but under the vague paragraph in the advertisement heretofore referred to, the contract was awarded to Crawford.

This pegamoid satchel has not proven a success. The coating wears off easily and it can not be successfully repaired. On an average they last about half as long as the leather satchels.

Three days before the bids were opened an agreement was entered into between Crawford and George E. Lorenz, of Toledo, Ohio, whereby Lorenz was to receive all profits from the proposed contract in excess of 25 cents per satchel, in consideration of which Lorenz "agrees to give the said party of the first part all his best efforts and services toward securing the award to the said party of the first part," etc.

After the contract had been awarded to Crawford, but before any satchels were ordered, another agreement was made between Lorenz and Crawford and substituted for the original one. This last agreement provides:

> That the said George E. Lorenz, party of the second part, is to have the exclusive right to furnish or cause to be furnished to the said Postal Device and Lock Company from time to time * * * all shoulder straps used or required to be used under and by virtue of said contract of June 25, 1902. * * * That the said Postal Device and Lock Company, party of the first part, shall pay over to the said George E. Lorenz, party of the second part, the sum of 45 cents for each "A" bag or satchel, the sum of $1.19 for each "B" bag or satchel, and the sum of 84 cents for each "C" bag or satchel.

The straps cost 39½ cents each, so it will be seen that Lorenz was to receive, in addition to the full value of the strap, a large part of the profits on the satchel.

The first order given to the new contractor by Machen was for 5,000 satchels, Class B, for which $15,800 was paid by departmental warrant October 15, 1902. On October 21 Crawford drew a draft for $5,441.35 in favor of George E. Lorenz, of Toledo, Ohio, as his share of this warrant under the terms of their agreement. Lorenz deposited this draft on October 24, and on the next day remitted drafts amounting to $1,400 to Machen, and a draft, payable to bearer, for $1,465.34 to Crawford, which draft was cashed at the Bank of New York, New York, on November 7, in a very singular and unusual way, being without indorsement. The same day that this "bearer" draft was cashed Crawford made a cash deposit of $1,465 at the United States Mortgage and Trust Company, New York, N. Y., the entire proceeds of the draft, less 34 cents. Other payments were made on the contract on December 20, 1902; January 15 and March 17, 1903, in sums of $5,481.51, $3,337.02, and $2,374.74, respectively; and similar remittances were made to Crawford and Machen (Exhibit L).

An analysis of their bank accounts shows that the money which was paid to Lorenz was subdivided between Lorenz, Machen, and Crawford. Machen and Lorenz each received 37½ per cent, and Crawford 25 per cent (Exhibit L).

The Postal Device and Lock Company was financed by Spencer Trask, of New York, a wealthy banker of that city. Crawford in some way made his acquaintance and induced him to furnish funds for the promotion of this company.

Under the provisions of the first agreement entered into between Lorenz and Crawford, the company was to receive a net profit of 25 cents per satchel, after which Lorenz would have received the remainder, whatever it might be. Crawford was paid a salary by the company (Exhibit L–14), so that if there was any profit in the contract the company was safe. After the contract was awarded, however, Crawford and Lorenz fixed up another agreement in lieu of the one already entered into by which Lorenz was to receive a stipulated sum per satchel, regardless of the profits of the company, and Lorenz agreed to furnish the straps. To make this proposition interesting to Crawford, Lorenz seems to have agreed to pay him personally one-quarter of the bonus, and the company which Crawford was supposed to represent had to take its chances of getting something out of what was left after the cost of manufacture was paid.

The straps were never furnished by Lorenz; but by Machen's order the Lamb strap was furnished as usual and paid for by departmental warrant at 39½ cents each. Crawford, as representative of the company, paid Lorenz for the straps, and also gave him an additional bonus on every satchel. Lorenz paid Crawford personally one-quarter of the entire amount he received and then gave Machen half of what remained. Lamb, in the meantime, was paying to Long and Machen a bonus of 4 cents on each strap.

This was probably the most skillful and complex scheme invented by any of the "postal grafters." It consisted of a double conspiracy; first, Lorenz and Machen conspired with Crawford to defraud the Government out of the price of the straps; then Crawford conspired with Machen and Lorenz to defraud his own company out of the profits of the manufacture of the satchels; while on the side was Long and Machen with their 4-cent "graft" on straps.

Machen's methods were progressive. They developed with time. During the life of the contract with Boyle & Co. he received only a percentage from Lamb on the straps. When Stern had the contract he received not only a percentage on the straps but a bonus from Stern for furnishing them, while from Crawford he received a percentage on the straps from Lamb, also the price of the strap from Crawford, and in addition to this part of the profits on the manufacture of the satchel itself. What his next move would have been it is difficult to conjecture.

On July 31, 1903, Machen, Crawford, George E. Lorenz, and Martha J. Lorenz were indicted by the Federal grand jury in the District of Columbia for conspiracy to defraud (Exhibit L–17).

RUNKLE CONTRACT.

In the award for 1902, the furnishing of the satchels was divided between two contractors, classes A, B, and C going to the Postal Device and Lock Company, and classes D and E to Maurice Runkle, of New York.

The straps were furnished to Runkle the same as they had been to Boyle, Stern, and Crawford. The arrangement between Runkle and Machen was similar to that between Stern and Machen, except that Long does not appear as an intermediary. The business seems to have been done direct between Machen and Runkle. Runkle was relieved from furnishing straps the same as the other contractors had been. The relations between Machen and Runkle, however, will be discussed in detail hereafter in connection with other transactions.

The straps for eight years were sent direct by Lamb to the contractors. But in 1902, at the time when the Crawford contract became effective, they were ordered shipped direct from Lamb to the Department, and from the Department they were shipped back to the satchel manufacturers at New York and Hartford.

What the purpose was in changing the method of shipment does not appear; but doubtless Machen thought it would be the more secure way to handle the business, considering the ramifications of his deals with Crawford and Lorenz.

The minimum amount of money actually stolen by the shoulder-strap swindle is $35,669.71; but the loss to the Department was far in excess of that, because goods of inferior grade were furnished in order to enable the contractors to make excessive profits, so that they would be able to divide liberally with Machen and his confederates.

GROFF FASTENERS.

The Groff fastener is a patented device for attaching street letter boxes to posts. The original method of attaching was by two iron bands with threaded ends encircling the post and passing through holes in the back of the box. Nuts were screwed upon the bands inside the box so as to draw it up firmly against the post. Contractors for street letter boxes were required to furnish these bands with the box. Postmaster-General John Wanamaker executed the contract on March 3, 1893, which contained this provision:

> Said boxes to be lettered, painted, and crated, and all necessary bands for fastening the said letter boxes to posts to accompany same.

This system worked satisfactorily for thirty years. The record does not show that the Department suffered any inconvenience therefrom.

Samuel A. Groff, a police officer in Washington with a "tinkering turn," invented a special contrivance on which he secured a patent in May, 1894, consisting of two matched iron cleats, one to be bolted to the box and the other to the post. The cleats are joined by sliding one over the other in a grooved socket, and are fastened securely by a locking spring.

Before the patent was secured, however, Groff consulted Machen, who, on November 22, 1893, furnished him two boxes for the purpose of perfecting the device. Nothing of record further appears until July 5, 1895, when the postmaster at Washington was directed to pay $1,500 for 1,000 Groff fasteners, and, as a result, the street letter boxes of that city were equipped with the device. On September 14 following, 2,000 fasteners were ordered for Philadelphia, at a cost of $3,000; 2,000 were sent to New York in February next, and 2,800 to Chicago on June 30, 1896. No contract was ever executed by the Department for these fasteners. All purchases have been made as the result of a verbal arrangement between Machen and the Groffs.

That this method of attaching letter boxes was not a necessity, nor even desired by the postmasters in many of the large cities, is clearly demonstrated.

On July 30, 1896, the postmaster at Boston, Mass., commenting upon the Groff fastener, said:

> First. Its mechanism is such that no matter how securely its component parts may be attached to a box and post, or wall, still it will be shaky, for there is considerable play between the two sections of the fastener which can not be overcome.
>
> Second. Its form is such that whether attached to a flat or curved surface it keeps the box away from same, and consequently there is no back support to steady the box in the least.
>
> Third. Its mode of attachment is such as to weaken the box, in my opinion, for the strain will come in a direct line through its center, which must be pierced by three holes. * * *
>
> Fourth. With the straps now used it is unnecessary to do any drilling in attaching to a post, but with the new device such would be absolutely necessary. * * *
>
> Fifth. The expense in putting up a box equipped with this device would be much greater than with the straps now in use. * * *
>
> In closing I would state that if this fastener is adopted and ordered in use by the Department, then some method should be devised for plugging the four holes now found in the back of all boxes; otherwise in stormy weather the contents would undoubtedly be damaged.

The postmaster at Cleveland, Ohio, on May 19, 1896, wrote:

> I take it that the use of these adjustments is calculated by the Department to protect the mails from the rain and weather, but I beg to advise you that we have had in this city no trouble on account of rain and weather, and no complaints of any kind have been made that mail in the boxes has been injured or soiled by the weather. These Groff adjustments, I understand, are to be booked to us at $1.50 apiece. This will add very materially to the cost of our Free Delivery Service, and as they can not be put upon boxes attached to wooden posts, I give it as my opinion that there is really no necessity for the adoption of these adjustments in this city, and unless overruled by the superior wisdom of the Department, I shall proceed no further along that line.

Neither of these letters was answered as far as the records of the Department show, but the fasteners were ordered attached to the boxes in both cities. They were forwarded to the postmasters throughout the country, whether desired or not. The obstacles to their use, how-

ever, in some cities, could not be wholly overcome. In New York they could not be fastened to the kind of posts then in use, and the 2,000 sent to that city in February, 1896, remained in the post-office over four years unused. Recently 550 were discovered in the basement of the Milwaukee post-office. In Chicago their use was impracticable, and the 2,800 sent to that city remained there over six years, when 2,284 were shipped elsewhere.

In addition to the price of $1.50 for each fastener, postmasters were required to pay the freight and cartage charges, which expenditures in the aggregate amounted to many thousands of dollars. The box contractors were not asked to reduce the price of their boxes because of being relieved from furnishing the iron bands; so that the Department continued to pay for the old fasteners.

That the equipment of the service with this patented device might be more expeditiously done, John F. Clark, of the Washington post-office, who acquired experience in attaching the Groff fasteners in this city, was sent over the country, at the Department's expense, to attach these fasteners; and in 1897 he was joined by Frank S. Machen, a brother of Superintendent Machen, and others, who in squads, usually of four in number, went from city to city taking down letter-boxes and fastening them to posts by the patented process.

Postmasters were required to furnish them room when practicable. These traveling mechanics would also rent a shop, buy tools, hammers, chisels, etc., hire a wagon to drive over the city and cut down letter-boxes that were already securely fastened, take them to the shop, plug up the holes in the back of the box that had been made to accomdate the original fastener, bore additional holes in order to attach the Groff fastener, and then readjust these boxes to the posts from which they had been taken. Thousands of dollars were expended in this way under the head of "Payments for erecting, repairing, and painting letter-boxes and attaching Groff fasteners."

The postmasters in the respective cities were ordered to pay the railroad fare and per diem expenses of these traveling "mechanics" whose business it was to see that the Groff fastener was used.

In the early part of 1897 John D. Miller, of this city, called upon Superintendent Machen and sought to interest him in a device which he had for attaching letter-boxes to posts. He was told by Machen that so few fasteners were used that it was not worth while to bother with it. Since that conversation, however, 70,000 Groff fasteners have been ordered by Machen.

The cost of the manufacture of the fastener is 25 cents each. Most of them were made by iron works near Philadelphia, Pa. The price to the Department, namely, $1.50, seems to have been agreed upon between Machen and Groff.

The introduction of the Groff fastener into the postal service is one of the boldest of Machen's schemes.

If the old method of attaching letter-boxes was regarded as unsatisfactory, an improvement should have been sought by advertising for a contrivance. This would have brought numerous suggestions. Then selection could have been made of the most suitable device presented. The new device could have been installed when new boxes were erected or the location of the old ones changed. The employment of squads of men in 1897, at heavy expense to the Department, to go over the country and cut down boxes that were already securely fastened and

reattach them with this expensive device was such an extraordinary proceeding that it should have aroused the suspicion of his superior officers.

For four years payments for these fasteners were made through local postmasters. A sufficient number would be sent to the postmaster to equip the service in his city, and he was directed to pay to the Groff brothers $1.50 each. Since 1899 the method of payment has been by departmental warrant. About that time the price was reduced from $1.50 to $1.25. Why this reduction was made does not appear, except that Machen, on June 19, 1899, asked one of the Groffs to "come to his office at his earliest convenience," and it is supposed that as a result of this personal conference the price was reduced.

The promotion of the use of this device in such an unusual manner, at so great an expense, is in itself evidence of some interest other than the welfare of the service. Machen stated that he had no financial interest, directly or indirectly, in the patent. The Groffs both stated that they had never paid any departmental officer or anyone else, directly or indirectly, any part of the moneys received for the device. The investigation by the inspectors, however, revealed certain suspicious circumstances. The Groffs, who for years had been doing a business of from $10,000 to $15,000 per annum with the Post-Office Department, both said that they had no account books and that no record of any kind had been kept of the hundreds of shipments made to the various post-offices throughout the country. They stated that their profit was $1 per fastener, which was divided equally between them. Their story was too unreasonable for belief, and its falsity was finally demonstrated by the ingenuity of Inspector Walter S. Mayer, of Chicago, who discovered that the Groffs, instead of dividing the $1 profit equally between themselves, were giving half of it to some other person, and were dividing the remainder equally between themselves. After a research lasting for some weeks it was discovered that George E. Lorenz of Toledo, Ohio, was receiving 40 per cent of the whole amount paid for these fasteners, or just one-half of the profit. Lorenz was formerly postmaster at Toledo and Machen was his assistant.

The bank account of George E. and Martha J. Lorenz proved to be the vat into which this 40 per cent stream emptied. Time after time, when payments were made by the Department, 40 per cent of the amount, exactly, was remitted by the Groffs to George E. Lorenz. But this 40 per cent did not remain long in the Lorenz bank account, but promptly remittances were made of one-half the amount to Machen. Sometimes Machen would draw on Lorenz for his half before the Groff remittance was received at Toledo.

The following table clearly illustrates the methods of remittances by the Government to the Groffs, from the Groffs to Lorenz, and from Lorenz to Machen:

Date of Groff warrants.	Amount of warrant.	Date received by Lorenz.	Amount received by Lorenz.	Ratio.	Date received by Machen.	Amount received by Machen.	Ratio.
				Per ct.			
November 18, 1899	$3,503.75	Nov. 27	$1,401.50	40	Nov. 28, 1899	$700.75	½
January 12, 1900	5,156.88	Jan. 27	2,062.74	40	Jan. 25, 1900	1,031.00	½
July 30, 1900	7,551.88	Aug. 8	3,020.74	40	Aug. 10, 1900	1,510.37	½
September 1, 1900	6,252.50	Sept. 20	2,501.00	40	Sep. 24, 1900	1,250.50	½
September 22, 1900	7,500.00	Oct. 12	3,000.00	40	Oct. 19, 1900	1,500.00	½
November 27, 1900	7,500.00	Dec. 17	3,000.00	40	Dec. 19, 1900	1,500.00	½
January 9, 1902	6,250.00	Jan. 20	2,500.00	40	Jan. 24, 1902	1,250.00	½

Since July, 1895, when the first order was given for Groff fasteners, 97,017 have been paid for by the Department, at an aggregate cost of $128,651.25. Ten thousand four hundred during the last fiscal year were ordered, but payment was deferred because of an exhausted appropriation, making a total of 107,417 ordered by Machen, at a total cost of $141,651.25. Add to this the expense of taking down the boxes and reattaching them with the new fasteners, freight, cartage, etc., and the expenditure for this contrivance during the last eight years would aggregate not less than $200,000.

Of the $128,651.25 that has been paid to the Groffs, Machen and Lorenz received $51,460 during the last eight years, which, divided equally between them, makes over $3,000 a year each that these conspirators have received from this one scheme. The unusual methods resorted to by Machen to extend the use of the Groff fasteners is therefore explained. Every box that was torn down and reerected at the Government's expense yielded Machen and Lorenz 50 cents net.

The Groffs, Machen, and Mr. and Mrs. Lorenz were indicted by the Federal grand jury in the District of Columbia on June 5, 8, and 22, 1903 (Exhibits L–26, L–27, and L–28), for conspiracy to defraud and the offering and receiving of bribes.

An incident in connection with the use of the Groff fastener is the purchase of 35,474 of them for use in the Rural Free-Delivery Service. The record of the Department shows that but 23,818 letter boxes have been furnished for use in the rural service, leaving an excess of 12,000 fasteners to be accounted for. Whether these 12,000 were ever furnished can not now be determined.

PAINTING OF STREET LETTER BOXES.

The color of the paint on the street letter boxes has been changed from time to time according to the taste of the administrative officers of the Department. Years ago it was dark green, afterwards vermilion red, which, at Machen's suggestion, was changed to aluminum bronze.

In the matter of painting, three items are considered—the post, the letter box, and the package box. The method of painting boxes when Machen assumed charge of the Free-Delivery Service was to authorize postmasters to receive bids from local painters, which he would submit to the Department with a statement as to the reliability of the various bidders. The Department would then authorize him to have the boxes painted at the figure named by the lowest responsible bidder.

In 1897 Machen adopted the aluminum color, and also changed the method of painting. He arranged with John T. Cupper, of Lockhaven, Pa., to paint all of the letter boxes in the United States, allowing him 25 cents each for the posts, 50 cents each for the letter boxes, and $1 each for the package boxes; posts to be painted green, boxes aluminum bronze.

Cupper claimed to have a patent paint designed especially for this kind of work. No bids were ever asked from any other painter and no contract was made with Cupper. It was simply a verbal arrangement between himself and Machen.

Another feature of the agreement between Machen and Cupper was that when Cupper did not do the work of painting he should furnish the material, for which he was to receive 38 cents per letter box and 75 cents per package box. Under this arrangement a squad or

two of Government employees were started over the country painting letter boxes. These men were usually paid about $3 per day and expenses.

In December, 1897, the postmaster at Chattanooga, Tenn., was instructed to have his letter boxes painted by these traveling painters; and L. W. Hardy, R. C. Cox, A. B. Coleman, and C. M. Cheney were sent there to do the work. They were paid expenses, including railroad fare from Washington to Chattanooga and return. The total payments by the postmaster at Chattanooga to these men were $1,058.67, for work which doubtless he could have had done by local painters for one-fifth of that amount. Such an unwarranted expenditure can only be explained by the fact that part of the time these painting brigades were adjusting Groff fasteners. After the boxes had all been attached by these patent fasteners, painting by traveling representatives of the Department was discontinued. Machen and Cupper then adopted a different method. The postmaster would be directed to have his letter boxes painted, sometimes at his request and sometimes without it. The following letter, addressed to the postmaster at Washington, July 30, 1897, is a sample of those written to postmasters throughout the country:

> It has been decided to have all of the street letter boxes in Washington painted with the Cupper aluminum paint. Mr. Cupper will do this work, and you will make arrangements to give him the necessary facilities. Regular letter of authority will reach you in due course of mail.

Pursuant to this order 1,051 boxes were painted in Washington, for which Cupper was paid 50 cents each, or $525.50.

There was no regularity as to the length of time that should elapse between the painting of the letter boxes. At the smaller offices in distant parts of the country, where the profits from the work would be small, they were not generally painted to exceed once in five years, and sometimes not that often, while at the larger offices, where the job would be lucrative, they were painted frequently.

In December, 1899, Machen advised the postmaster at Washington that John T. Cupper, the contractor, had been directed to paint the letter boxes of that city; and on February 27, 1900, Cupper was paid $838.75 for the work. In April, 1901, less than fifteen months afterwards, the postmaster was again advised that the contractor, John T. Cupper, had been instructed immediately to repaint the boxes, which Cupper did at a cost of $906.

In New York and Brooklyn the boxes were painted in December, 1899, at an expense of $2,259, and in August and September, 1901, twenty or twenty-one months later, they were again painted, at an expense of $2,986.75. In Philadelphia they were painted in October, 1901, at a cost of $2,700, and in December, 1902, at a cost of $2,868.

Cupper frequently visited the large cities and made personal arrangements for the painting; but in cities of less consequence, where it was not convenient for him to visit, a letter would be written from the Department, bearing Machen's initials, of which the following is a sample:

> I have instructed the contractor for painting letter boxes, Mr. John T. Cupper, Lockhaven, Pa., to make immediate arrangements for painting the letter boxes, etc., in use at your office. The letter and package boxes will be painted one coat of aluminum bronze and the posts scraped and painted one coat of bronze green.
>
> As it will be impossible for the contractor to personally visit your office, this will

be your authority to assist him in securing the services of a reliable painter competent to do this class of work.

When the work in your city has been satisfactorily completed you will pay Mr. Cupper at the rate of $1 per package box, 50 cents per letter box, and 25 cents per post.

This letter would be followed by one from Cupper, advising the postmaster that supplies had been forwarded, asking him to have the boxes painted by a local painter, and authorizing him to pay for the work at the rate of 5 cents per post, 15 cents per letter box, and 25 cents per package box.

On July 24, 1900, the postmaster at Springfield, Mass., submitted a proposal for painting the box equipment of that city with aluminum bronze at 15 cents per letter box and 25 cents for each package box; costing in all, $32.25. On July 27 he was informed that John T. Cupper, the contractor, had been instructed to arrange immediately for painting the boxes, which was done. After the work was completed the postmaster was directed to pay Cupper $100.50, over three times as much as asked by the local painter.

On April 19, 1901, the postmaster at San Francisco requested authority to expend not more than $149.70 in the purchase of aluminum bronze and other material for painting his letter boxes, stating that he could have the labor performed by employees of the post-office without interfering with their other duties. His request was complied with, and he expended $105.76 of the amount allowed. In May, 1902, he again asked permission to expend not to exceed $180 for the painting of the letter boxes. In answer to this request he was directed to inform the First Assistant Postmaster-General of the number of boxes that needed painting, and was advised that material for such painting would be shipped him. On June 5 the postmaster replied, giving the number as 2,005; and on June 14 a letter was addressed him, bearing Machen's initials, which said:

I have instructed Mr. John T. Cupper of Lockhaven, Pa., to send you sufficient material for painting 1,871 letter boxes and 134 package boxes at your office.

Another letter bearing Machen's initials, on August 22, reads as follows:

Inclosed herewith find bill of Mr. John T. Cupper for $811.48, for sufficient aluminum bronze for painting 1,871 letter and 134 package boxes. If this material has been received you will pay Mr. Cupper the above-named amount.

On September 10 the postmaster, as directed, paid Cupper $811.48 for material which he had ninety days previously notified the Department he could secure of local dealers for $180.

I do not believe that a postmaster should be excused for permitting the public revenues to be robbed in this way without first making a direct protest to the Postmaster-General. It should be said to the credit of some postmasters that they have not pliantly acquiesced when it appeared to them that public moneys were being wasted. On August 8, 1900, the postmaster at Fort Wayne, Ind., wrote the First Assistant Postmaster-General as follows:

Referring to your communication of the 6th instant, subject, painting letter and package boxes at this office, I think I ought to call your attention to the fact that this work was done less than a year ago, namely, in October, 1899, and that posts, letter and package boxes in this city are generally in very good condition at this writing. For this reason, unless your contract requires the immediate repainting of boxes, etc., I would respectfully recommend, in the interest of economy and a bet-

ter job of work under this contract, that it be deferred until next spring, say about May 1, at which time the work will not suffer from the dust and insect life so abundant at this time.

In March, 1902, the postmaster at New Orleans had employed a local painter to furnish the material and paint the boxes at the rate of 34 cents per letter box, 60 cents per package box, and 10 cents per post. In November, seven months afterwards, he was notified that John T. Cupper had been instructed to paint the letter boxes at New Orleans, and he was directed to pay him the standard rates of 25 cents, 50 cents, and $1, according to the schedule. The postmaster, however, notified the Department that the boxes did not need painting, and no further action was taken.

The postmaster at Columbus, Ohio, on September 24, 1898, upon receiving Cupper's bill for material, wrote:

It would seem to us from the stock received and the bills presented for payment, the amount is excessive, of which fact you should be advised before payment is made.

No reply was made to this communication.

The manufacturers of letter boxes by the terms of the contract were required to letter, paint, and crate the boxes at the factory. But regardless of this provision, Cupper was ordered in July, 1900, to paint all the letter boxes at the factory in Reading, Pa., where they were being manufactured, for which he was paid $16,227.50, a needless expenditure, since the manufacturer was required by the contract to paint them. There is no evidence that money was ever paid by the manufacturer for being relieved from this part of his contract, as Stern was required to do in the satchel contract.

In October of the same year Cupper was ordered to paint the package boxes at the factory in Cleveland, Ohio, where they were being made, which he did at an expense of $2,048.

The only excuse that has ever been given by either Cupper or Machen for these unusual and extraordinary charges for the painting of boxes is that Cupper's paint is a patent paint—superior to any other for the painting of letter boxes. Cupper's patent, however, was not applied for until January 20, 1898, six months after the paint was adopted by Machen, and was manifestly an afterthought.

This alleged patent paint is simply commercial aluminum, and can be purchased anywhere in the open market. In several instances Cupper ordered aluminum shipped direct from dealers in New York to post-offices, though usually he had it shipped to him at Lockhaven, where he professed to treat it by some chemical process before he shipped it to postmasters.

H. P. Coffenberger, mechanic in the Baltimore post-office, states that Mr. Thomas Harrison furnished the aluminum with which he painted the letter boxes in the year 1901; that at another time he secured the aluminum from Cupper, and that Harrison told him there was practically no difference in the paint.

Samples of Cupper's aluminum, secured at different post-offices, were submitted for examination to the Department of Agriculture. The chemical analysis (Exhibit L–40) shows it to be ordinary aluminum. Ludwig Saarbach (Exhibit L–36), a chemist at No. 114 Pearl street, New York, pronounced it the same.

COMPARATIVE COST OF PAINT.

The record for the six years prior to the arrangement with Cupper for painting letter boxes is more or less defective. But on May 28, I sent a circular letter to about 500 different post-offices requesting detailed information as to cost of painting letter boxes for six years prior to June 30, 1896. The following table sets forth the results of this inquiry:

Fiscal year ended—	Number of boxes painted.	Cost of painting.	Average cost per box.
			Cents.
June 30, 1890	2,450	$506.56	20.6
June 30, 1891	2,979	833.26	27.9
June 30, 1892	10,498	3,260.09	31
June 30, 1893	4,141	1,186.59	28.6
June 30, 1894	4,673	1,577.06	33.7
June 30, 1895	13,193	3,634.80	27.5
June 30, 1896	13,385	4,191.32	31.3
Total	51,319	15,189.68	29.5

The above estimate includes both letter and package boxes, so that the average cost for painting all boxes for the six years prior to the Cupper arrangement was about 29½ cents.

Since Machen's removal as general superintendent of free-delivery the old method of painting has been restored, aluminum bronze still being used as the standard paint. Postmasters have been required to ask local painters to submit bids for painting the letter boxes; and upon reporting to the Department the amount of the bids, they have been authorized to have the work done by the lowest responsible bidder. The following table sets forth the results:

Post-office.	Letter boxes.		Package boxes.		Posts.	
	Number.	Rate.	Number.	Rate.	Number.	Rate.
Alton, Ill	73	$0.30	2	$0.60	24	$0.15
Ansonia, Conn	43	.45	4	1.00	16	.22
Astoria, Oreg	37	.45	7	.85	.....	.....
Berwick, Pa	25	.40	10	.50	20	.10
Brockton, Mass	167	.37	15	.75	20	.15
Butler, Pa	33	.42	.....	.....	11	.15
Canton, Ohio	261	.14	25	.27	100	.07
Charleston, S. C	118	.50	24	.50	6	.25
Chester, Pa	101	.35	2	1.00	84	.08
Chicopee, Mass	32	.50	6	.75	32	.14
Concord, N. H	90	.50	11	1.00	63	.25
Danvers, Mass	26	.30	.....	.....	25	.09
Davenport, Iowa	136	.20	27	.50	30	.15
Detroit, Mich. No. 1	662	.18	170	.38	760	.07
Do. No. 2	172	.20	.....	.....	.....	.....
Do. No. 3	35	.24	.....	.....	.....	.....
Elgin, Ill	95	.38	4	.76	57	.19
Emporia, Kans	71	.45	5	.90	.....	.....
Evansville, Ind	198	.20	11	.50	184	.04½
Grand Rapids, Mich	246	.25	35	.50	188	.12
Joliet, Ill	159	.35	14	.75	65	.10
Madison, N. J	.....	.....	1	.85	.....	.....
Milwaukee, Wis	.....	.....	.....	.....	20	.10
Moberly, Mo	33	.30	3	.60	23	.15
Oak Park, Ill	67	.42	4	.84	56	.21
Portland, Me	.....	.....	14	.50	.....	.....
Quincy, Ill	157	.30	9	.60	51	.15
Rahway, N. J	.....	.....	.....	.....	3	.34
Red Wing, Minn	36	.30	.....	.....	28	.05
Springfield, Ohio	120	.41	12	.82	.....	.....
Steubenville, Ohio	57	.42	1	.85	3	.21
Torrington, Conn	46	.50	1	1.00	8	.07
Watertown, N. Y	106	.26	1	.52	8	.13

	Cost.	Average.
3,402 letter boxes	$976.84	$0.2871
418 package boxes	213.41	.51
1,885 posts	186.85	.09

It will be observed that the above average is about the same as it was before the Machen-Cupper arrangement.

One of the most striking illustrations may be had by comparing the cost of the painting recently done at Detroit, Mich. On Cupper's schedule it would have cost $794.50, while under the present method it cost $279.96, a net saving of $514.59 on one painting in that city.

During the time that Cupper was painting the boxes at extravagant prices, other painters solicited the business in their respective cities. Joseph Shepherd & Co., of Milwaukee, Wis., on January 26, 1900, asked that local painters be given the work, and in response was advised that John T. Cupper, of Lockhaven, Pa., had the contract for painting all letter boxes.

On February 21, Peter Zucker, an attorney of New York, wrote Machen asking that one of his clients be permitted to bid on the next contract for the painting of letter boxes in that city. On February 28 he was advised that Cupper had the contract for painting all the letter boxes in the United States. Numerous other inquiries were made, all receiving the same reply. There never was, however, any contract with Cupper other than a verbal agreement between him and Machen.

The foregoing statement of facts conclusively demonstrates that some other interest than the public service was being served in the painting of letter boxes. The real purpose was revealed by an examination of the accounts of Machen, Cupper, and W. C. Long, whose acquaintance was made when considering the contract for inking pads, carriers' straps, and satchels. Inspectors Sullivan and Simmons called upon Cupper in April of this year and interrogated him concerning his connection with Machen and the painting of letter boxes. He stated that he had a verbal contract with Machen. Upon being asked if he had any agent in Washington looking after his business, he replied (Exhibit L–29):

> I had no representative, and no one in Washington, D. C., was interested with me in the letter-box painting.

He was then asked:

> Was any money you received, or any money you should have received, for painting letter and package boxes and posts ever paid to anyone connected with the Post-Office Department or to anyone else who was instrumental, directly or indirectly, in aiding you or awarding you this contract * * * or to anyone to be conveyed to any person or persons for purposes stated?

His answer was:

> No, sir; there was no understanding with anyone. Such a thing was never mentioned.

When the inspectors, in the course of the investigation, discovered a record of more than $8,400 passing from Cupper to Long from June 29, 1900, to December 30, 1902, and that a part of this money found its way into the pockets of Machen, they again, in June, visited Cupper and inquired as to his relations with Long. Cupper then

declined further interviews, but subsequently made a lengthy deposition in Washington, in which he stated that he first met Long casually at a restaurant when he was in Washington on business with the Department, and that he afterwards met him a few times at a cigar store on F street. Referring to these meetings, Cupper says:

> I made a statement to Mr. Long after I had been up there four or five evenings. I approached him on the subject. I said to him, "I would like if you would intercede for me to get my contract." He said he was a contractor and well acquainted in the city. I said, "I will tell you what I will do. If you will get me this contract or help me to get it, I will give you 10 cents on a box, and if you will look after my interests here, if you get me the contract and look after my interests." He said he would do the best he could (Exhibit L–30).

In one statement Cupper denied that he had an agent of any kind or paid money directly or indirectly to anyone in Washington in connection with the painting of letter boxes. When he found that the inspectors had knowledge of his transactions with Long, he said that he had paid Long 10 cents per box on all that were painted.

Cupper has been paid about $100,000 by the Department, which represents the painting of 200,000 letter boxes. Probably 40 per cent of this was net profit, to be divided among Machen, Long, and Cupper.

Many documents that might properly be submitted as exhibits in this case are in the hands of the district attorney, the Federal grand jury having on July 31, 1903, indicted Machen, Cupper, and Long for conspiracy to defraud (Exhibits L–31 and L–32).

CARRIERS' LEATHER CASES.

In 1900 Machen introduced into the Free-Delivery Service a leather case, presumably for the purpose of inclosing the registry books which carriers took with them on their routes. No advertisement for bids, however, was made for supplying this new article, and no contract was entered into by the Department with any dealer to furnish them. Machen seems to have taken the matter up personally with Maurice Runkle, of New York. The first record relating to this transaction is a letter from Runkle to Machen, dated July 14, 1900, in which Runkle says (Exhibit L):

> I send you to-day by express the sample letter case. * * * I would very much like you to call me up Monday after 12 o'clock * * * or, if you see fit, write me and let me know whether you want me to come over to see you again, or whether you want me to put our own prices on these, but think it best for me to run over and have a talk with you; but let me hear from you by letter so I can get it Tuesday morning, or, if you wish, telephone me. * * *

Machen evidently telephoned Runkle as suggested. The next communication that passed between them was another letter from Runkle to Machen, dated July 18, in which he says (Exhibit L):

> As per my samples submitted, I propose to furnish you with 5,000 letter pouches at 90 cents per piece.

On this letter is a footnote in Machen's handwriting, as follows:

> MacG order 5,000 for R. F. D.
> 1,500 to be delivered as soon as possible.
>
> A. W. M.

"MacG" was T. W. McGregor, supply clerk of the Rural Free Delivery Service.

On July 24 Runkle was advised (Exhibit L):

Your proposition of the 18th instant, for furnishing the Department with 5,000 pouches at 90 cents each, has been received and is herewith accepted.

This was the beginning of the purchase of cases for carrier registration books, of which Runkle furnished 21,000. In order to give this transaction some shadow of regularity, Machen certified to the Auditor that these purchases were made as a matter of "exigency," there being a provision in the law by which purchases of an urgent nature could be made without contract. And the "exigency" that existed in July, 1900, continued for almost three years.

Runkle was not a leather manufacturer, but apparently a dealer in clothing, being the proprietor of the Bay State Clothing Company, of Long Island City. He secured the first order of 5,000 cases, or pouches as they were sometimes called, from Herman Scheuer, 435 Broome street, New York City, for which he paid 30 cents per case. The remaining 16,000 were made by the Nonpareil Manufacturing Company, of Newark, N. J., for 5,000 of which he paid 25 cents each and for the remaining 11,000 28 cents each. The following table sets forth in detail these transactions:

Year.	Number of pouches.	Paid manufacturer.	Received from Government.	Difference.
1900	5,000	$1,500.00	$4,500.00	$3,000.00
1901	5,000	1,250.00	4,500.00	3,250.00
1902	11,007	3,081.96	9,906.30	6,824.34
Total	21,007	5,831,96	18,906.30	13,074.34

These cases bought from Runkle were alleged to be for the Rural Free-Delivery Service. The last order for 5,000 was given September 24, 1902. At that time there were not to exceed 11,000 rural carriers in the service, yet Machen had then purchased over 21,000 cases for rural carriers without competitive bids or contract, because the "exigency" of the service required it. But that was not the end of this transaction with Runkle. On January 15, 1903, an "exigency" still existed, and he secretly gave Runkle an order for 8,000 more cases, and Runkle contracted with the Nonpareil Manufacturing Company for this additional order at 28½ cents each. Three thousand three hundred of these had been delivered to Runkle by the Nonpareil Company by April 15, when he countermanded the order (Exhibit L–42) by the following letter:

Kindly do not ship us any more pouches until you hear from me, and don't cut up any more leather until you hear from me, as this investigation in the Post-Office Department will have to stop before I can do anything further.

A further examination of the records indicates that the "exigency" was not so much to receive the cases as it was to pay for them. On September 8, 1902, Runkle rendered a bill for 4,000 cases. McGregor, the clerk in charge of free-delivery supplies, certified that they had been received, and Runkle was paid for the 4,000, while on that date he had only shipped 500, the remaining 3,500 not having been shipped until September 18. On September 30, 1902, another order for 5,000 cases was given to Runkle. The bill for these, amounting to $4,500, was approved by McGregor, with the statement that they had been received, and on October 3 Runkle was paid. When the bill was cer-

tified to by McGregor and approved by Machen for these 5,000 pouches, only 633 had actually been received, and the full order of 5,000 was not completed until the middle of December, two and a half months later. The records for free-delivery supplies were so imperfectly kept that it is not possible to determine absolutely that more than 4,000 of the last consignment were ever actually received.

On May 26, 1903, the day preceding Machen's arrest, Runkle wrote Guild, of the Nonpariel Manufacturing Company, and requested that he call to see him in New York "on a matter of importance." James E. Baremore, representing the company, responded to this request, and Runkle asked him to change the company's records of shipments so as to correspond as to dates with the bills on file in the Department. In relation to this conversation Baremore (Exhibit L–44) says:

> Runkle referred to the trouble on in the Post-Office Department on account of the investigation, and stated in substance that the Department in Washington had found out that his (Runkle's) bills did not correspond with shipments, as he had been sending in bill with first shipment for whole amount of order. Runkle handed him two memorandum slips, requesting in substance that records of the Nonpariel Manufacturing Company be fixed to agree with his memoranda, to show a single shipment for entire order.

Afterwards Runkle sent his bookkeeper to Newark to inquire of the firm if any post-office inspectors had been there; and, if so, what information had been given them. He was informed that inspectors had been there and that the company had not changed the record as requested by him, but had given the inspectors the facts. When Runkle heard this he complained very bitterly of such treatment by the company when he was about to get into trouble with the Post-Office Department. In regard to the remainder of the 8,000 cases ordered by Runkle, which had not been delivered, Baremore (Exhibit L–44) says:

> Runkle stated in substance that the investigation would blow over, Machen would be vindicated, would probably hold same office, and when the investigation should be over the cases would go through all right and he (Runkle) would then take the rest.

No record was made in the Department of this additional order for 8,000 pouches. They were to be delivered by the Nonpareil Manufacturing Company to Runkle by June 15, evidently intended by Machen and Runkle for delivery after July 1, when the appropriation for the new fiscal year became available, at which time another "exigency" payment would have been made.

On March 11, 1903, the father of Theodore R. Guild, treasurer of the Nonpareil Manufacturing Company of Newark, N. J., wrote the Hon. R. W. Parker, Member of Congress from that district, asking that his son be given opportunity to bid direct on these leather cases. This letter was referred to Machen, who, two weeks after, wrote Mr. Parker that Guild's name had been "placed on the list."

In December, 1902, Mr. Charles F. Lighthouse, of Rochester, N. Y., undertook to get an opportunity to bid on these articles, but failed. Runkle was interrogated on May 19, 1903, in regard to this transaction, and stated that he had furnished only about 5,000 of these cases and that he manufactured them himself—both statements being absolutely false, as he had furnished then 21,000 and had an additional order for 8,000, all of which he had secured from different manufacturers.

Machen, in his statement (Exhibit L–2), admits that he ordered these cases from Runkle without competition; that they could have been

secured for less money from other sources, and states that he never received any part of the proceeds from the sale of these cases.

This leather case transaction is small when compared with the Groff fastener and the Cupper paint, but it had been running but three years. Considering the rapid development of rural free delivery, this shameless "graft" would doubtless have grown to great proportions had Machen's official tenure lasted.

H. Conquest Clarke, superintendent of the Rural Free-Delivery, was never consulted by Machen as to the utility of this case and did not know that such an article was in use until he was advised by the inspectors after this investigation had begun. Neither was E. H. Hathaway, supervisor of Rural Free-Delivery, consulted as to their desirability. It was Machen's idea, and the motive appears in a financial transaction between Machen and Runkle, by which Runkle bought from Machen 175 shares of mining stock, for which he paid $2,450. Runkle states (Exhibit L) that this stock was "not worth a d——." Selling valueless stock to a contractor is a convenient way of collecting a bribe. Runkle, in addition to buying this worthless stock from Machen, also paid McGregor, the clerk in charge of supplies, who certified as to the correctness of his shipments, certain amounts of money.

Other papers might be referred to in this discussion, but the data are now in the hands of the United States attorney, Machen, Runkle, and McGregor having been jointly indicted by the grand jury for the District of Columbia, on July 31, 1903, for conspiring to defraud (Exhibit L–46).

CHARLES E. SMITH CASES.

The cases bought from Runkle were for the Rural Free-Delivery Service. In 1901 it was thought wise to adopt this pouch for the city carrier service, but for some reason Machen did not desire to purchase them from Runkle.

C. Ellsworth Upton, an employee under McGregor in the Free-Delivery Division, who lived at Powhatan, Md., took up the matter of supplying these cases with C. E. Smith, dealer in leather goods in Baltimore. Upton submitted to him a sample, doubtless one of the Runkle cases, and Smith told him that he could furnish them for 50 or 60 cents per pouch. At the suggestion of Upton he finally raised the price to 75 cents, and mailed a proposal at that figure to Machen. Nothing was heard from this proposal. Upton again called upon Smith and told him he might as well have 90 cents as 75 cents. He also drafted a proposal and directed Smith to copy the same and forward it to Machen, which he did on March 23, 1901.

Smith's final proposition having been properly filed, Upton, being a politician of some local significance, undertook to secure him the "influence" necessary to have the proposition accepted. He secured letters from Congressmen Blakeney, Wachter, and Schirm recommending Smith for favorable consideration to the Department. None of these men knew Smith, and their indorsements of him were given upon Upton's representations to them. Smith takes no active part in politics, but votes the Democratic ticket.

This political influence that was sought was not necessary in order to influence Machen, but convenient to offer as an excuse should the

transaction ever be called in question; and on May 27, when Machen was interrogated as to his dealings with Smith, he stated that Senator McComas was interested in Smith's securing the contract, and that it was as a favor to the Senator that he bought the cases from Smith.

The record, however, does not show any communication from the Senator bearing upon the matter. The letters of Blakeney and Wachter were given to Upton, who placed them in Machen's hands. On each one is indorsed "See me, A. W. M.," in Machen's handwriting, plainly indicating that he was giving the matter his personal attention.

At Upton's suggestion, Smith wrote Machen, July 19, 1901, again soliciting an order for the pouches; and on the face of this letter, in Machen's handwriting, appears the indorsement: "I. S. L. See me. A. W. M." On July 18, 1902, an order was finally given for 5,000 of the pouches, at 90 cents each. The following table shows the orders given Smith:

Date of order.	Number of pouches.	Date of payment.	Amount.
July 18, 1902	5,000	Oct. 1, 1902	$4,500
August 19, 1902	5,000	Oct. 30, 1902	4,500
October 6, 1902	5,000	Dec. 4, 1902	4,500
November 1, 1902	5,000	Jan. 6, 1903	4,500
Total			18,000

It will be observed from the above that these 20,000 cases were ordered within less than six months. They also were paid for as "exigency" supplies, though at that time city carriers had been handling registration books for over two years, and there was no demand for a receptacle in which to place them. When these cases were furnished to carriers they were rarely used. Out of 97 carriers in the Washington City post-office, 85 never have taken the pouches with them on their trips, stating that they were useless and inconvenient. Most of these cases furnished the Washington office were recently found in the carriers' desks, covered with dust, never having been used. Of the 226 carriers in the main office in Philadelphia, only 14 have ever pretended to use them. In the few offices where they are used, the carriers do so because they think it is a requirement of the Department. Few carriers have been found who consider this pouch a necessity, or even a convenience.

On July 18, 1902, the first order was given Smith, and prompt delivery was urged; and on September 17 a bill was rendered for 5,000 pouches, $4,500, which was indorsed by McGregor, "Supplies furnished in accordance with this bill." On September 25 it was approved by Machen, and on October 1 a warrant issued for $4,500, though at that time but 2,783 of the 5,000 had been received. And the same process of falsification that characterized the Runkle transactions was pursued by McGregor in every other order given Smith, as indicated by the following table:

Date of bill.	Number of pouches delivered.	Shortage.
September 17, 1902	1,055	3,945
October 27, 1902	2,080	2,920
November 24, 1902	2,183	2,817
December 12, 1902	1,213	3,787

The necessity for these pouches was purely a fiction. Large numbers of them still remain in bins in the Busch Building, never having been distributed. And those that have been sent to post-offices throughout the country remain very largely in carriers' desks unused.

The purpose of the purchase of this case for city delivery is explained by the anxiety on the part of McGregor and Upton to secure the warrants for payment of Smith's bills. The regular practice in the Department is to mail warrants to the address of the payee. In the regular course of business, therefore, Smith's warrant for these pouches would have been sent him by mail to his address in Baltimore. But instead of permitting the warrants to go direct to Smith, McGregor called at the office of the "administrative auditor" for the Free-Delivery Service, who had charge of issuing these warrants, and asked that Smith's warrant be given to him, which was done. After securing each warrant, McGregor and Upton went to Baltimore and delivered it to Smith at his store and waited there while he went to the bank, deposited the warrant, and drew a check for $2,000, payable to himself, which he cashed, securing currency in the denominations indicated by McGregor. Smith then brought the money back to his store and paid it to McGregor. This process was repeated four times. Upton told Smith (Exhibit L) that he and McGregor received $500 out of each warrant and Machen $1,000.

The dates of the checks and payments are as follows:

Date of $4,500 warrants:
October 1, 1902.
October 30, 1902.
December 4, 1902.
January 6, 1903.

Date of $2,000 Smith checks:
October 2, 1902.
October 31, 1902.
December 6, 1902.
January 10, 1903.

After this investigation had started Upton called upon Smith and told him that if any inspectors should visit him he must be very cautious as to what he said. When the inspectors first called on Smith, April 10, he was very reticent, talked vaguely, and refused to sign any statements; but on June 2, when again interviewed, he revealed to them the whole story. Smith bought all the 20,000 cases from the Warren Leather Goods Company, of Worcester, Mass. He paid 35½ cents each for the first 10,000 and 30 cents each for the second 10,000; total, $6,550. He received from the Department $18,000, making $11,450 paid by Machen in excess of the market price. This $11,450, according to Upton's statement to Smith (Exhibit L), was divided as follows:

Machen	$4,000
McGregor	2,000
Upton	2,000
Smith	3,450

The Warren Leather Goods Company finally discovered the ultimate destination of these pouches, and wrote their Washington agents, Messrs. Topham & Bogley, asking them to endeavor to get a part of this business. Topham & Bogley immediately inquired of Machen and McGregor in regard to these supplies, but were put off by dilatory excuses until Smith complained to the Worcester firm of their attempted

interference with his business, and as a result the Washington representatives were called off.

Upton and McGregor were indicted in Baltimore on June 25, 1903, for conspiracy to defraud (Exhibit L–47).

Thomas W. McGregor was appointed to the postal service in 1891, at the age of 16, as a page, at $360 per annum, and assigned to the Free-Delivery Division. Two years later he became an assistant messenger, and was holding that position when Machen was made superintendent. Since then he has been promoted, until upon the date of his removal he was drawing a salary of $1,600 per annum. He was the confidential agent of Machen in a number of his corrupt transactions. On June 5, 1903, he was removed from office by the Postmaster-General.

Upton was first appointed to the Free Delivery Service May 12, 1900, as a "carrier" at $2.50 per day, afterwards $2.75, with expenses. He was for a while allowed car fare and horse hire, and later board and lodging when away from home.

Through various shifts in the records, which are more or less obscure, he became a clerk in the Rural Free Delivery Service at $1,000 per annum, and later, upon the recommendation of Machen, was promoted to $1,200, then to $1,400 per annum. He was an indolent clerk, and seems to have been favored by Machen for other reasons than clerical efficiency.

The gross amount paid for these cases to Runkle and Smith was $36,906.30, which represents a net loss to the Department, because they were useless. This $36,906.30 of public money was therefore wasted, that Machen, McGregor, and Upton might steal about 40 per cent of that amount.

Many other schemes of Machen involved the expenditure of more money, but none was more shameless.

STREET LETTER BOXES.

One of the most important contracts for free delivery supplies is that for street letter boxes. These contracts are let periodically every four years.

It has been the practice for the Postmaster-General before the award is made to appoint a committee to pass upon the merits of the various boxes submitted and recommend one for adoption. The committee in 1893 consisted of H. Clay Evans, First Assistant Postmaster-General; William J. Pollock, superintendent free-delivery, and George F. Stone, chief clerk to the Second Assistant Postmaster-General. Thirty-six proposals were submitted. The box then in use, known as the "Doremus" box, was recommended, and the contract awarded to Maybury & Ellis, of Detroit, Mich., who controlled the patent. There were three sizes, No. 1, containing 750 cubic inches; No. 2, containing 1,180 cubic inches, and No. 3, containing 2,360 cubic inches. The prices were $2.60, $3.25, and $7.25, respectively, being a slight reduction as compared with the prices under the contract then expiring.

Machen became superintendent of Free-Delivery in September, 1893, over six months after this contract was executed. Maybury states that during the first year of the contract, apparently not many months after Machen's appointment, Eugene D. Scheble, a dentist of Toledo, Ohio, called on him and interested him in a patent he had acquired for a new letter box. After considering the matter at some length, Maybury

agreed to give Scheble a 25 per cent interest in the profits of the contract which he then held. Maybury, when asked why he gave Scheble an interest in this contract which he had already secured, stated that he thought there was merit in Scheble's box, and that it might, in the future, become a troublesome competitor. He seems to have been very much alarmed, considering the fact that his contract then had about three years to run and there was no opportunity for Scheble's box to become a competitor before the expiration of that time. As nearly as can be determined, Scheble's interests became effective from the beginning of the contract, being retroactive. The total number of boxes furnished under this contract was 27,346, at a cost of $86,051.70. Of these, 2,740 were furnished during the first year, costing $8,189.40, while during the last three years, after Scheble acquired his 25 per cent interest, 24,606 were furnished, costing $77,862.30. Of the $86,051.70 paid for street letter boxes during the four years of the contract, Scheble received 25 per cent of the profits. The exact profit on each box could not be ascertained, but from the information available it is estimated at $1.25. On the 27,346 furnished during the four years of the contract the profits to the contractors would therefore amount to $34,182.50, of which Scheble received one-fourth, or about $8,500.

It is not reasonable to suppose that a man of affairs like Maybury, who had at that time served two terms in Congress and is at present mayor of the city of Detroit, should voluntarily deliver to a stranger from Toledo, Ohio, one-fourth of his profits in so valuable a contract because he feared that two or three years hence that man might become a dangerous competitor for another contract.

During the first year—that is, before Scheble had intruded himself into the contract—there were 2,740 boxes ordered, for which the Department paid $8,189.40, Maybury's profits, at $1.25 per box, amounting to $3,425, while during the second year, after Scheble became interested, 16,400 boxes were ordered, at a cost of $52,526.25. The total profits of the second year's business were $20,500, of which Maybury received three-fourths, or $15,375, and Scheble one-fourth, or $5,125. If the whole truth were revealed it would doubtless show that this increase in the orders for boxes was the argument used to induce Maybury to deliver to Scheble a fourth interest in this valuable contract. If this is so, it surely proved a good investment.

If Maybury's real purpose in giving a fourth interest to Scheble was to provide against a dangerous competitor for the future, he misjudged the man. In 1897, when the letting of another contract was due, Postmaster-General Wilson appointed a committee, consisting of Thomas B. Marche, chief clerk in the Free-Delivery Division; A. B. Hurt, a subordinate of Machen's, employed in the Free-Delivery Service, and Bernard Goode, chief clerk of the Dead Letter Office. There is nothing alleged against the integrity of any of the members of this committee, but it was easily dominated by Machen, a majority being composed of subordinate clerks in his office.

Numerous proposals were submitted. Maybury presented his old box, the Doremus, and also the box in which he and Scheble had a joint interest. The committee selected the Scheble box, discarding the Doremus, which had been used for eight years. The contract, however, was awarded in the name of Maybury & Ellis. The prices were: No. 1, $2.60; No. 2, $3.25, and No. 3, $5.25, the same as in the former contract, except as to No. 3.

The Scheble box having been selected, Maybury was required to give Scheble one-half the profits under the new contract. The box was somewhat different in construction from the old one. In opening it to deposit letters the lid was lifted up, while the lid of the Doremus box was pulled down. This new box, however, did not prove satisfactory; and on April 7, 1899, after it had been in use something over a year, Machen wrote Maybury, stating:

> I desire to have you come to Washington within the next week or ten days, if you can conveniently do so, to arrange for a change of design in the boxes now supplied by your company.

On May 3, a letter initialed by Machen and signed by George M. Allen, Acting First Assistant Postmaster-General, requested Maybury & Ellis on all further orders to furnish the old Doremus box instead of the new box. On May 5 Maybury replied, stating that the request would be complied with; and from that date the Doremus box was furnished. Maybury still continued, however, to pay Scheble 50 per cent of the profits of the contract; presumably upon the theory that this discarded box might, in the future, become a dangerous competitor when he was seeking another contract.

This Scheble box presents an interesting enigma. It made such an impression upon Maybury that he gave Scheble 25 per cent of the profits of a contract entered into before he had ever seen Scheble, and before Machen became Superintendent of the Free-Delivery Service. This he states was done to provide against it becoming a competitor for the next contract. It became a competitor, however, at the next letting; was selected by the committee, and because of such selection Maybury was required to increase Scheble's interests in the profits of the contract from 25 to 50 per cent. After less than two years' trial the box was declared unsatisfactory and the old box substituted for it. It would appear that Scheble's claim was then exhausted. But not so; Maybury still continued to give him 50 per cent of the profits. The enigma is explained by Inspectors Williams and Farrell, who, in the investigation of this case, discovered that Scheble remitted diligently one-half of his profits to Machen, superintendent of Free-Delivery. Numerous bank drafts and other evidence were secured by them and presented to the grand jury for the District of Columbia. To illustrate:

February 5, 1901, Scheble received $608 from Maybury, and a few days thereafter he remitted $304 to Machen. In May, 1901, Scheble received from Maybury $269.62, and shortly thereafter he remitted $134.75 to Machen. Many other similar remittances were made. About $10,000 of the money paid Maybury & Ellis by the Department under the 1897 contract has been traced into the hands of Machen, through Scheble.

There is no evidence that Maybury had specific knowledge as to the arrangement between Scheble and Machen; but that he believed Scheble was powerful enough with Machen to destroy the value of his 1893–1897 contract, and to take away from him the contract of 1897–1901, is evident. Otherwise he never would have voluntarily given him the large amount of money that he did.

An interesting incident occurred during the letting of the 1897 contract. One Solomon C. Wynn submitted two proposals, one for an iron box, similar material to the Doremus box, and the other for a sheet-steel box. The rates offered by Wynn for the cast-iron box were

$1.75, $2.25, and $2.75, as against $2.60, $3.25, and $5.25 for the accepted box of like material, showing a reduction of 85 cents, $1, and $2.50 each on the various sized boxes. Wynn therefore became an embarrassing competitor. But Machen was equal to the occasion. He submitted to Postmaster-General Wilson a protest against the award being given to Wynn, stating that he had a cousin, Arnold J. J. Machen, of Toledo, Ohio, who was interested with Wynn in this box, and that he did not think it proper for the contract to be awarded to a firm in which a relative of the Superintendent of Free-Delivery was financially interested. The Postmaster-General evidently was impressed by the unselfish devotion of Machen to the public interests, for Wynn's bid failed of recognition and Scheble's box was adopted as recommended by the committee, though in so doing the cost of the letter boxes during the contract period was increased $51,553.80, of which a large part has since been traced into Machen's pockets through Scheble.

During the 1897 contract there was purchased a total of 49,309 boxes, at an aggregate cost of $149,656.55. This contract was a very profitable one. On December 11, 1900, Maybury wrote Charles S. Prizer (Exhibit L–49):

> We divided up over $20,000 in royalties the last six months. If we can get in on the rural delivery plan we will sell a great many boxes the coming year.

The inspectors have positive evidence, in the nature of bank drafts, that $53,046.25 in net profits was received by Maybury during the four years of the contract. Of this Scheble received about $26,500, Machen's half being about $13,250, or over $3,300 per annum.

This contract, as executed, provided that—

> Said boxes to be lettered, painted, and crated, and all necessary bands for fastening the boxes to posts to accompany the same, except when boxes are ordered with the "Groff patent fastener" attachment, in which case the fasteners will be sent to the manufacturers and they will attach them to the boxes without additional expense.

This left the matter of furnishing these bands optional with the Department. Contractors had to figure upon providing them, however, because, under the terms of their contract, if the Department elected they should provide them, they would be required to do so. The cost of these bands is estimated at about 25 cents per set. The contractors were not required to furnish the band, because Machen was then attaching boxes with Groff fasteners, as heretofore explained. Scheble was probably the only bidder who knew that these bands would not be required.

In 1901, when the contract was to be relet, the Postmaster-General, after consulting with Machen, appointed the following committee to make the award: Thomas W. McGregor, chairman; J. E. Waite, James E. Bell, Thomas B. Graham, L. S. Elmer. McGregor was a clerk in Machen's office, in charge of supplies—the same McGregor who was indicted with Machen and Runkle for fraud in connection with pouches, and also with Upton for fraud in connection with the purchases from Smith, of Baltimore. The other members of the committee were doubtless well-meaning men; but, all being subordinate officials, would defer largely to the judgment of Machen and McGregor. Maybury & Ellis again submitted the Doremus box, which had now been in use for twelve years, except for the brief period it had been displaced by the Scheble box. The same progressive tendencies that were displayed by Machen and Lorenz in the satchel "graft" were repeated by Machen and Scheble in the box con-

tract. In 1901 Scheble again presented a new box for the consideration of the committee. McGregor's report discredited the old Doremus box, saying that 14 per cent of them were broken in shipment; a statement demonstrated (Exhibit L) to be false. It suggested that sheet steel be used to provide against this alleged excessive breakage, and the committee, for this reason and the alleged insecurity of the Doremus box, recommended that the sheet-steel box submitted by the Michigan Steel Box Company be accepted. This company is a fiction; it has no plant, not even an office. A desk in Scheble's dental office in Toledo is all there is to it. The bids of Maybury & Ellis on the Doremus box and the Michigan Steel Box Company, or Scheble, on his sheet-steel box, are as follows:

	No. 1.	No. 2.	No. 3.
Maybury & Ellis (cast iron)	$2.70	$3.00	$4.50
Eugene D. Scheble (sheet steel)	2.90	3.75	4.25

Scheble's bid on the small sizes, of which the larger numbers are used, was higher, yet the contract was awarded to Scheble because his box was made of sheet steel. "Sheet steel" was made the basis for rejecting the Doremus box and the Maybury & Ellis bids. This was not the first time, however, that sheet steel had been suggested in the construction of letter boxes. In 1897, Wynn, heretofore referred to, submitted a sheet-steel box similar to the one which Scheble now presented. The following is a comparison of the bids at that time:

	No. 1.	No. 2.	No. 3.
Wynn (sheet steel)	$2.25	$2.65	$3.00
Maybury & Ellis (cast iron)	2.60	3.25	5.25

It will be observed that at this letting the cast-iron box was selected in preference to sheet steel at a much higher price. The cast-iron Doremus box had then been in use eight years. If it was subject to excessive breakage, as stated by McGregor, it was well known at that time, and an opportunity was offered to test the utility of sheet steel for boxes at greatly reduced prices; but it was given no consideration, being rejected at Machen's special and personal demand.

In 1901 Scheble presented a sheet-steel box and he was given the contract. The following table shows the difference in the prices of sheet-steel boxes offered by Wynn in 1897 and rejected and those offered by Scheble in 1901 and accepted:

	No. 1.	No. 2.	No. 3.
Eugene D. Scheble	$2.90	$3.75	$4.25
Wynn proposal	2.25	2.65	3.00
Difference	.65	1.10	1.25

So it appears that in 1897, when Scheble and Machen were interested with Maybury & Ellis, cast iron was preferred to sheet steel, but when Machen and Scheble became interested in sheet steel it became the desirable box.

Maybury evidently had hopes of securing the contract again in 1901. On February 27 he wrote to Prizer, who had manufactured for him the Doremus box, and who was, therefore, interested in Maybury's retaining the contract, advising him to go to Washington to be present at the letting. In this letter he said:

> You will meet in Washington also a Doctor Scheble. It is enough for me to say that he is very influential in the matter, and whatever he says will be authoritative. I am very sorry I can not be on the ground, but I believe our friends there will have no trouble in securing the contract.

This letter indicates that Maybury was depending on Scheble to secure the contract again. Maybury was so confident of success that he was negotiating a contract for making the boxes. But he was mistaken. Scheble, who, in 1894, either by skill or coercion had secured from him one-fourth interest in his contract, and in 1897 half of it, now took it all. When Maybury learned that he had lost the contract, he became somewhat hostile toward his former friends, and wrote Prizer:

> I think there has been both bad faith and treachery in the whole procedure.

And on June 26 he again wrote:

> My friend McGee, in Washington, is a nice little fellow, but not fit to cope with the parties he had to deal with.

But for some reason Scheble and Machen did not think it wise to exclude Maybury entirely, so they voluntarily gave a sixth interest for himself and friends.

After securing this contract, Scheble employed the Adrian Brick and Tile Machine Company, of Adrian, Mich., to manufacture the boxes. The following table gives the prices paid the manufacturer and the profits to Scheble:

Boxes.	Price paid manufacturer.	Price paid by Department.	Profits to Machen and Scheble.
No. 1	$1.60	$2.90	$1.30
No. 2	1.95	3.75	1.80
No. 3	2.60	4.25	1.65
No. 4	4.20	6.25	2.05

Machen and Scheble now being in complete control of the box business, liberal supplies were ordered. The contract became effective on July 1, 1901, but the manufacture of boxes did not begin until about December 1, and from that time until the date of Machen's suspension, covering a period of not more than one year and six months, 27,718 boxes were ordered, at a cost of $90,257.75. Of this, $63,465.50 had actually been paid. On the 27,718 boxes ordered there would be a net profit of at least $40,630.

Street letter boxes were not, however, confined to city use, but were strewn along the public highways on rural routes. During the past four years 27,000 street letter boxes have been so distributed, for no other purpose than to use more boxes. They are unnecessary, since every farmer's letter box serves the purpose of both a deposit and a collection box. Machen had ample notice that these boxes were not used and were wholly unnecessary. Postmasters frequently wrote the Department to that effect.

The postmaster at Bangor, Wis., on November 18, 1902, reported—

that Government box at Adams Valley schoolhouse is of no use, as the carrier hasn't found any mail in the box for months.

At Conrad, Iowa, January 27, 1903:

In regard to the United States letter boxes in use on our routes, I wish to ask for their discontinuance, as the carriers say they do not average over two or three letters out of them per month.

At Fort Wayne, Ind., January 23, 1903:

The carrier does not take from those boxes an average of one letter a month.

The postmaster at Lakeview, Iowa, July 15, 1903, reports that from a certain box but one letter has been collected since December 1, 1902.

At Birmingham, Mich., March 6, 1903, he reported:

The carrier does not get a letter out of it once a month.

At Cherry Valley, Ill., March 31, 1903, he asked permission to discontinue rural collection boxes, stating:

Carriers report that not one letter is taken from same in three months on the average.

The postmaster at Cameron, Mo., on July 18, 1903, informed the Department:

About a year ago I received three large size iron collection boxes which I supposed were for use on our rural routes, though I made no requisition for them.

These are but samples of many similar letters received.

A special agent of the the rural service on June 11, 1903, reported:

I recommend the discontinuance of 25 United States collection boxes within the limits of Mower County, Minn. * * * Very few of them have been of any use whatever. The carriers inform me that they have opened them daily for weeks, and in some instances for months, at a time without finding a single letter in them. * * * I know of no place within the county where even one collection box will be of any use.

Another special agent, June 26, 1903, forwarded the names of a large number of postmasters in Michigan and recommended that they

be instructed to remove all United States collection boxes from their routes and store them, or dispose of them, as may be desired by the Post-Office Department. I make this recommendation for the reason that I have talked with all the postmasters and carriers in this county, and they inform me that they do not collect on an average of one letter a week from United States collection boxes.

Yet in the face of such conditions, upon Machen's order during the last four years about $70,000 has been expended for collection boxes upon rural routes.

The record of boxes kept by McGregor, under Machen, is contradictory as to the number of boxes chargeable to the rural service. There must have been shifts between the city and rural service appropriations. The number runs from 23,818 to 26,922. The latter appears to be the number actually assigned to the rural service.

Much of the evidence in this case has been presented to the grand jury for the District of Columbia, Machen and Scheble having been indicted by the grand jury September 8, 1903, charged with conspiracy and fraud (Exhibits L–56 and L–57). Scheble was arrested at Toledo and is now under $10,000 bail to answer said indictment. And Machen, who had previously been indicted on numerous charges, was required to give additional bond of $10,000 because of these new indictments.

PACKAGE BOXES.

The large boxes that are seen on the streets, fastened to the letter-box posts or other supports, are styled package boxes. They are for the accommodation of those who desire to send by mail packages that are too large to be placed in the ordinary letter box, and were first contracted for in 1893. These boxes are made of rolled steel and contain 8,500 cubic inches. It seems originally to have been intended to suspend them from the posts, but on account of their size it was found advisable to set them upon the sidewalk or street at the base of the post, or, where that is not practicable, to place them upon blocks.

The first contract for package boxes was awarded in 1893, nominally to William H. Spencer, but Isaac McGiehan was in fact the contractor, Spencer being a "dummy." In 1897 the award was made to McGiehan in the name of the Columbian Manufacturing Company, of New York, and in 1901 he again got the contract, but this time in the name of the Columbia Supply Company.

McGiehan is not a manufacturer, but a New York lawyer with an inventive turn. The Van Dorn Iron Works, of Cleveland, Ohio, have manufactured the package boxes for him since they were first introduced into the postal service.

While McGiehan has held the contract for ten years, he has not always been free from competitors. In 1897 Solomon C. Wynn, whose bid on letter boxes, it will be remembered, was thrown out on the pretext that a cousin of Machen's was interested with him, also bid on package boxes, to be made of the same material as those furnished by McGiehan. Wynn proposed to supply them for $3.50 per box. Other bids also were submitted as follows:

B. F. Smith, general agent, Washington, D. C.	$4.00
The M. Donovan Wire and Iron Works, Toledo, Ohio	6.00
Geo. H. Thompson, Hollidaysburg, Pa	6.00 7.00
C. O. Locas & Co., Greenville, Ohio	7.25
Frank H. McMonigal, St. Paul, Minn	8.00

The committee, however, awarded the contract to McGiehan at $10.80, alleging that his box was believed to be the most convenient and durable. This was the same committee that recommended the Scheble letter box, which was afterwards discarded.

When McGiehan was first interviewed by the inspectors he told a plausible story about how he came to secure the original contract, and stated that he had never paid anything to any official of the Post-Office Department, directly or indirectly, in connection with his contract for these boxes. In examining Machen's bank account, however, the inspectors discovered that he had been depositing checks from George H. Huntington, a clerk in McGiehan's office, and treasurer of the company that was supplying package boxes. The inspectors again interviewed McGiehan and asked him about these checks. He then said that some time during the year 1894 Machen visited him in New York and introduced George E. Lorenz, stating that Lorenz had a suggestion as to package boxes that would be of interest to the Department. Lorenz's suggestion was that standards or legs should be attached to the boxes. McGiehan said that the suggestion impressed him favorably and he accepted it, agreeing to reward Lorenz by paying him a "royalty" of 50 cents per box. The legs cost perhaps 25 cents a set,

thereby increasing the cost of boxes to McGiehan, including Lorenz's "royalty," 75 cents each. As a result of this agreement between McGiehan and Lorenz, Machen had the contract revised and the price of the boxes increased from $9 to $10.25, or $1.25 per box. McGiehan probably would have gladly accepted other suggestions from Lorenz upon the same terms.

In explanation of the payments of money direct to Machen, McGiehan stated that Lorenz at one time was absent in Europe, and had asked that the amounts due him for "royalty" on box sales be paid to his friend Machen during his absence, and that these checks to Machen represented "royalties" due Lorenz during that period. The manner in which this "royalty" was remitted, however, is interesting.

It was not paid by the checks of the company, as were other bills, but by the personal checks of McGiehan's clerk, Huntington. Huntington drew checks on the company's account, payable to himself, which he deposited in a private account at a different bank from that in which the funds of the company were kept, and from this private account Huntington made these remittances to Machen. Huntington says that he had no interest in this money and that these payments were made in this way by the direction of McGiehan. They cover a period of one year and four months, as follows:

Date of deposit.	Amount.	Date of deposit.	Amount.
December 2, 1899	$500.00	March 2, 1901	$350.00
April 3, 1900	200.00	April 1, 1901	225.50
September 11, 1900	100.00		
December 20, 1900	250.00	Total	1,875.50
February 12, 1901	250.00		

It is not difficult to demonstrate that McGiehan made false statements as to the purpose for which this money was paid Machen.

An interesting incident bearing upon the payment of the Lorenz "royalty" grew out of the letting of the contract for letter boxes in 1901. McGiehan was a bidder for that contract. Scheble secured the contract, however, as heretofore related, and McGiehan was very much disappointed, and charged Machen with the responsibility for his failure. As a result, he says he refused to pay the "royalty" any longer, and from that time there have been no checks from Huntington to Machen discovered.

The ordering of package boxes was characterized by the same wasteful extravagance as that of letter boxes. In 1901, the last year that the Lorenz "royalty" was paid, 8,381 boxes had been purchased, 1,869 of which—or 29 per cent—were stored away unused.

I have been unable to determine the exact amount that McGiehan has paid to Lorenz and Machen, but $163,000 was expended for package boxes while Machen was superintendent of the Free-Delivery Service; and it can be safely stated that the service could have been abundantly supplied with much less expenditure.

McGiehan, Huntington, and Machen were, on September 8, 1903, indicted by the Federal grand jury of the District of Columbia for conspiracy and fraud (Exhibits L–66, L–67, L–68, and L–69).

THE MONTAGUE INDICATOR.

The Montague Indicator is a device intended to be attached to street letter boxes, showing the hours of collection. On August 11, 1899, a

company known as The Montague Indicator and Letter Box Company was organized at San Francisco, with W. W. Montague, D. S. Richardson, and E. M. Hoagland as incorporators. Montague is the postmaster at San Francisco, Cal., and Richardson is a cashier in that office.

The company issued capital stock to the amount of $100,000, consisting of 20,000 shares, at $5 per share. Richardson was the real promoter; and immediately after the organization of the company an effort was made to secure the adoption of the device by the Post-Office Department. Correspondence was had with First Assistant Postmaster-General Heath, and on October 26, 1899, a committee consisting of Daniel S. Richardson and James W. Erwin was appointed by the board of directors to visit Washington and present the merits of the device to departmental officers. Richardson was at that time superintendent of stations of the San Francisco post-office. He was first appointed to the service in 1879 as a clerk, and has been employed continuously in various positions in that office since that time. Erwin was a post-office inspector, having been appointed to that position in 1887, from Atlanta, Ga., by William F. Vilas, Postmaster-General. While appointed from Atlanta, he had lived there but two years, having formerly been employed in the newspaper business at Toledo, Ohio.

The committee, as directed by the board of directors, visited Washington in November, 1899, and conferred with First Assistant Postmaster-General Heath and Superintendent Machen in regard to the adoption of their device. Erwin was acquainted with Heath and Machen, but Richardson did not know anybody in the Department except George W. Beavers, Superintendent of the Salary and Allowance Division. The prospect at first was not very promising, and Richardson consulted Beavers as to the best methods he should pursue to insure success. Beavers told him (Exhibit L–60) that he ought to distribute stock among the officials who were to pass upon the merits of the device. The suggestion seems to have startled Richardson at first, but, coming from a man of Beavers's standing in the service, he concluded to follow it. He therefore tendered 1,000 shares of stock to Machen, who accepted it without hesitation, requesting that it be issued in the name of H. G. Seger. Beavers himself was presented with 2,000 shares, 1,000 shares for himself and 1,000 reported to have been for First Assistant Postmaster-General Heath, this 2,000 shares being issued in the name of Richardson.

After this gratuitous distribution of stock to Beavers and Machen the affairs of the company assumed a more favorable aspect, and in a short time they received assurance that an order for 2,089 of these indicators, at $4 each, would be given for the purpose of equipping the letter boxes in the State of California. The committee then returned to San Francisco, and on December 11 submitted an elaborate report to the board of directors, congratulating them upon the success of their trip. Immediately after the return of Richardson and Erwin the company was reorganized under the name of the Postal Device and Improvement Company. All postal officials were eliminated as officers, and Earl H. Webb was made president of the reorganized company. The capital stock was increased to $200,000, or 40,000 shares, valued at $5 each. Richardson, however, still continued the active manager of the company.

On December 21, 1899, soon after the reorganization of the com-

pany, Earl H. Webb, the new president, notified First Assistant Postmaster-General Heath that the order for 2,089 indicators, at $4 each, would be given immediate attention. On January 26, 1900, in a letter initialed by Machen, the First Assistant Postmaster-General acknowledged Webb's letter of December 21 as follows:

I have your communication of the 21st ultimo, agreeing to equip the letter boxes in the State of California with your indicator at a cost of $4 per box. You will please furnish 7,000 of these devices at the above price, the same to be delivered on July 1 and thereafter.

This order for 7,000 devices came as a happy surprise to the stockholders, as they were hardly expecting such liberality on the part of the Department. It became necessary for Richardson to make another trip East for the purpose of closing a contract with the Reading Stove Works, of Reading, Pa., for the manufacture of the device.

Erwin kept Machen advised as to Richardson's movements and the progress they were making in the promotion of their enterprise. On February 19, 1900, he wrote Machen as follows:

Richardson will start East to conclude a contract with the Reading Stove Works for the manufacture of our device. He should be in Philadelphia about March 1 or 2, and will put himself into communication with you from that place either by telephone or letter. * * * Perhaps you may find it convenient to run over to Philadelphia to meet him there with a view to a better understanding as to details.

It will be observed that Erwin, in writing to Machen, refers to the indicator as "our device." Machen did not visit Richardson at Philadelphia, as suggested, but they had a conference in Washington, and Richardson closed the contract with the Reading Stove Works for the manufacture of "our device" at $2.29 each.

Richardson reported in detail to Machen the cost of manufacturing the device, and urged an increase in the price to be paid by the Department, stating that to allow the company a satisfactory profit the indicator should bring $4, $4.50, and $5, the price being regulated by the size of the box to which it was attached.

In the meantime, at Machen's suggestion, it was decided that Erwin should be transferred from the inspectors' division to the position of assistant superintendent of the Free-Delivery Service, and thereby become one of Machen's immediate subordinates. Under the pretense that it was necessary for Erwin to visit the Department and become familiar with the duties of his new position, before the appointment became effective, Machen had him called to Washington in the early part of June, 1900. From the extensive memorandum which Richardson gave Erwin of things which he should attend to for the company (Exhibit L) it would seem that his real object was to serve the Postal Device and Improvement Company instead of the Department. It appears that at about this time an agreement was made, either between Machen and Richardson, or Machen and Erwin, that the price paid for the devices should be increased as requested by Richardson. The Department was to pay for those attached to box size No. 1, $4; No. 2, $4.25; No. 3, $4.50. One of the things that Richardson especially charged Erwin to do was to see that no orders were given for the equipment of No. 1 boxes; and this he seems faithfully to have carried out, for on June 12, 1900, a letter to the company, initialed by Machen and signed by the First Assistant Postmaster-General, reads as follows:

I have this day instructed Messrs. Orr, Painter & Company, of Reading, Pa., to equip 900 medium and 100 large-size letter boxes with your time-indicator device,

and to ship the same as soon as possible to the postmaster at San Francisco, Cal., this device to cost $4 for the small, $4.25 for the medium, and $4.50 for the large size, as heretofore agreed upon.

On the same day this letter was written an order was given to the Reading Stove Works to manufacture and equip with the Montague indicator 1,000 boxes, 900 of size No. 2 and 100 of size No. 3. All of these devices were paid for at the rate of $4.25 and $4.50 each.

Erwin seems to have been very much elated over his success in securing this advance in the price, and telegraphed the result of his efforts to Richardson, who, on June 14, 1900, acknowledged the telegram as follows:

Your telegram relative to the box order received. Good. Am awaiting further details. When do you expect to go to Reading?

So it appears that Erwin, who had been called to the Department upon the pretense of official business, was really devoting his time to the interests of the Postal Device and Improvement Company and using his influence to secure an advance in the price of the device which it was selling to the Government, and in which he and his immediate chief had a financial interest.

After Erwin became assistant superintendent of free delivery he was assigned to the Pacific coast and had general supervision of the free-delivery service in that territory. In that capacity he could be useful in promoting the interests of the Postal Device and Improvement Company, and he did not overlook the opportunity. On May 6, 1902, in a letter to the superintendent of city delivery, he officially recommended the equipment of the letter boxes of Sacramento with the Montague device, which was done. The postmaster was required to employ a mechanic to attach the indicators to the 110 boxes in that city at an expense of $159.65, or about $1.50 per box.

In the year 1900, 7,100 of these devices were purchased at a net cost to the Government of $30,075, which was largely increased by expenses of freight, drayage, and attaching to boxes. The original cost of the 1,000 indicators shipped to San Francisco that year was $4,275; removing and erecting boxes, $535.50, making the actual cost to the Government $4,810.50, or $4.81 per box. They supplement the small celluloid time card on the face of the box, which costs less than 10 cents. To this should be added a part of the freight charge upon the shipment of the 1,000 boxes and 1,000 devices attached, which alone amounted to $1,811.76, or $1.81 for each box and device.

An excessive number of boxes were shipped to the Pacific coast for the purpose of supplying a demand for these devices. It may be of interest to note the exact cost of a letter box as it stands on the streets of Sacramento.

The post to which the box is attached cost [a]	$1.85
The No. 2 box, the size usually in use	2.60
Painting	.50
Groff fasteners	1.25
Montague device	4.25
Attaching the fastener and device	1.45
Freight and cartage	1.81
Total	13.71

On April 21, 1902, another order for 10,000 devices was given at $4.25 each. This order was originally drafted by Machen in lead

[a] And freight.

pencil, and was for delivery during the fiscal year 1903. Only 4,000 were manufactured and received by the Department, however, by the end of the fiscal year, at which time the order was canceled.

The equipment of letter boxes with this expensive device, costing almost double as much as the box to which it was attached, can not be justified from any standpoint of intelligent or honest administration. There are 80,000 boxes in the city service of the United States. It would, therefore, have cost $340,000 for the devices alone to equip the existing service; add to this the expense of attaching, freight, etc., and the total cost would have aggregated not less than $400,000. There was a net profit to the company of about $2 each, which on 80,000 would have aggregated $160,000.

If the equipment of the boxes with the Montague device had been pushed as vigorously by Machen as was the attaching of the Groff fastener, the stock of this company soon would have become very valuable; but the difficulty was that the cost was so great it soon ate deeply into the miscellaneous appropriation and left less money to be expended for letter boxes, Groff fasteners, satchels, straps, cases, painting, etc. Machen's interests in these other supplies were much larger than in the Montague device, and a greater percentage of the money expended for them found its way into his pockets; and he was not willing that too much of the miscellaneous appropriation should be expended in the equipment of boxes with indicators. As it was the stock at one time sold as high as $3 per share.

The stock donated to Beavers and Machen had been nominally issued by the company to Richardson, or was under his control to be used at his discretion in its interests. Seger, in whose name Machen's stock was issued, is a contractor for free-delivery collection service in the city of Chicago. The stock given to Beavers remained for a while in Richardson's name.

On February 1, 1901, a dividend of 6 cents per share was declared, and on May 17, 1902, a second dividend of 10 cents per share was paid.

On February 6, 1901, 250 additional shares of stock were sent to Machen. Richardson states that this was done as a token of gratitude for past favors. Erwin says (Exhibit L) that at about the time this stock was given Machen, Richardson was complaining of the sluggishness of the Department in paying the bills of the company, and remarked: "I wonder if they want more stock back there?" So that this 250 shares were probably intended more as a spur to action than as a reward for favors. Machen's stock was issued to Seger. Seger states (Exhibit L) that he bought this stock from Machen and paid him $1,200 for it. But whether Machen actually sold the stock or had Seger hold it for him is not material to this inquiry.

There is mystery about the true ownership of the 2,000 shares given to Beavers. Inspectors Wayland and Birdseye, however, in their investigation, developed some interesting facts concerning this stock. It was issued in eight certificates—four of 300 shares each and four of 200 shares each.

These certificates were originally issued in the name of D. S. Richardson, and by him, at the suggestion of Beavers, assigned to John R. McDonough. The books of the company show the certificates to have been issued to Richardson. Richardson states that he collected the dividend on this stock and forwarded it to Beavers in currency by registered letter.

The first dividend of $120 was forwarded to Beavers February 6, 1901. This remittance was acknowledged by Beavers in the following letter:

WASHINGTON, D. C., *February 20, 1901.*

Mr. D. S. RICHARDSON,
Room 7, Mills Building, San Francisco, Cal.

Personal.

MY DEAR MR. RICHARDSON: Yours of February 6 with inclosure duly received. I will hold the papers in your name for the present, until something decisive is known. I am glad to know that the matter promises so well. I have not seen Mr. Heath, but will make another effort to-day. He is mighty hard to locate just now, being busy on national committee matters. Give my regards to all inquiring friends, and believe me,

Very truly, yours,

G. W. BEAVERS,
Superintendent.

This was in February, 1901, and the stock was still in Richardson's name and apparently in Beavers's possession. In August, 1902, Beavers again wrote (Exhibit L):

WASHINGTON, *August 21, 1902.*

Mr. D. S. RICHARDSON,
Care Postmaster, San Francisco, Cal.

Personal.

DEAR RICHARDSON: Our friend in Salt Lake wants the inclosed stock drawn in the name of Edwin B. Bacon. Kindly issue new certificates and have these destroyed. Forward same to me by registered mail.

Yours, very truly,

G. W. BEAVERS.

On the face of this letter is indorsed a lead pencil note in the handwriting of R. H. E. Espey, secretary of the company: "Editor Salt Lake Tribune," and on the back, "133 S. West Temple" and "9th E. and Brigham," the first being Heath's office address and the second his home at that time.

The "inclosed stock" referred to consisted of certificates Nos. 56, 58, 59, and 61 of the Postal Device and Improvement Company, amounting to 1,000 shares, being four of the eight certificates given to Beavers on December 27, 1899.

As directed in the foregoing letter, a new certificate, No. 235, for 1,000 shares was issued to Edwin B. Bacon, on August 28, 1902, and mailed to Beavers in lieu of those returned. The old certificates were not destroyed, however, but were found in the files of the company by the inspectors. On these original certificates the name of McDonough had been erased and Bacon's inserted in red ink. This seems to have been objected to, and then the new certificate for 1,000 shares was issued.

The Edwin B. Bacon referred to is a citizen of Louisville, Ky., Heath's uncle by mar iage, and said to be one of his most intimate friends. This certificate, No. 235, which was issued to Edwin B. Bacon August 28, 1902, in lieu of the four original certificates, was returned to the company anonymously in a blank envelope after this investigation began. The envelope with postmark is alleged by Richardson to have been destroyed. Bacon states (Exhibit L–60) that he never saw the stock and did not know that it was in existence. Heath refused to make a written statement, but stated verbally to Inspector R. D. Simmons (Exhibit X) that he never heard of the stock, and had no interest in the company directly or indirectly. Richardson says that all he knows about the real ownership of the stock came through Beavers.

The facts that Beavers, who had nothing whatever to do with the adoption of the device, except as he could influence Machen and Heath, was given twice as much stock as Machen; that he kept the stock two years and then had one-half of it reissued to Bacon, Heath's relative by marriage, and that these particular 1,000 shares should have been returned anonymously to the company after this investigation began, are circumstances tending to corroborate the allegation that half of the 2,000 shares issued to Beavers was given to Heath.

Machen alleges that what he did for this company was at the earnest solicitation of ex-Congressman Loud. Richardson states (Exhibit L) that Mr. Loud had no pecuniary interest in the company; that he never offered Loud any stock, because he thought such an offer would be resented, but that he did give 150 shares to H. F. Dodge, clerk to the House Committee on the Post-Office and Post-Roads. Richardson also says that stock was presented to one or two of Loud's intimate political friends in San Francisco, but that Loud had no knowledge of such donations.

The evidence in this case was submitted to the United States attorney for the District of Columbia; and Beavers, Machen, and Erwin were indicted on September 8, 1903, for conspiracy to defraud the Government (Exhibit L–61). The district attorney decided that the evidence against Heath was not sufficient to justify his indictment.

RURAL CARRIERS' BADGES.

Machen did not despise little things. While letter boxes, Groff fasteners, carriers' satchels, etc., were bringing him annually thousands of dollars of ill-gotten gain, yet he was not unmindful of the smaller transactions.

Soon after rural free delivery was well under way Machen conceived the idea of furnishing an official badge for rural carriers. The first purchase was for 2,000 from Herman Baumgarten, of Washington, at 35 cents each, made of German silver. Subsequently, when Baumgarten solicited additional business he was told by Machen that a "celluloid" badge had been adopted, it being preferable on account of its lightness.

Charles J. Heller, of Philadelphia, a dealer in caps, helmets, and headwear states (Exhibit L–71) that he called on Machen at the Post-Office Department in 1900 and solicited business in his line. Machen entered into negotiations with him which resulted in an agreement on his part to furnish the "celluloid" badge referred to at 50 cents each, 5 per cent discount in lots of 5,000. During the negotiations, Heller states that Machen told him that usually there were certain "fringes" to such transactions; and as a result of this suggestion Heller agreed to give Machen a "fringe" of 10 per cent on the gross sales.

From September 22, 1900, the date of the first order for badges to Heller, 38 orders were given, covering a total of 17,756 badges, at a cost of $7,760.50, upon which Heller paid Machen $767.55 as commissions, as follows:

February 12, 1901	$248.50
September 11, 1901	249.15
December 11, 1901	7.55
July 21, 1902	30.75
About July 31, 1902	30.80
December 1, 1902	200.80
Total	767.55

Commission on one order, amounting to $85, had not been paid at the time of Machen's removal. These payments were made in cash by Heller to Machen personally, the money for the first payment being placed, at Machen's suggestion, in a drawer of his desk. The others were inclosed in an envelope and handed him at his office.

On October 5, 1903, Machen was indicted in connection with these transactions for receiving bribes, a copy of which indictment is submitted herewith, marked "Exhibit L–72."

CONCLUSION.

The "Heller case" completes the record for the Free-Delivery Division wherein the investigation has resulted in criminal proceedings. The foregoing, however, do not include all the criminal acts of Machen. Shortly after he came to Washington he obtained the sum of $3,500 on a forged mortgage, the genuine instrument being at the same time held by a bank in Toledo, Ohio, to secure another loan to him. Nor is this the only forgery chargeable to Machen. A few years after his appointment as superintendent of free delivery he procured the employment of Henry L. Lorenz, of Toledo, Ohio, to a position in the Free-Delivery Service, and contrived to have the appointment dated back about three months, covering a period in which Lorenz was not employed and rendered no service whatever to the Government. The voucher purporting to be that of Lorenz for the sum of $369, compensation for this period, was forged by Machen, and later he forged the indorsement of Lorenz to the Government warrant for this amount, procured the cash thereon, and converted the same to his own use.

This offense was charged against Machen some years ago, and in 1897 he was interrogated under oath before a Committee of the Senate and testified that he never saw the warrant for this money and that Lorenz indorsed it himself and procured the money on the same. Last May, on the day Machen was dismissed from the service, he was questioned under oath and testified as regards this warrant that Lorenz gave him authority to indorse his name to the warrant and execute the voucher. There is also evidence of his having prepared some fictitious letters with a view to presenting still a third defense to the charge of perpetrating this fraud (Exhibit L–1). More than three years having expired since these forgeries were committed, the statute of limitations protects him from prosecution.

In this report I have endeavored, as briefly as possible, to relate the story of Machen's operations while in charge of the Free-Delivery Service. In a report of this kind many administrative acts of minor importance as compared with the grosser frauds must be omitted and many interesting details eliminated. These, however, are fully set forth in the accompanying exhibits. The investigation of this division resulted in the finding of 21 indictments, involving 17 different persons.

From the day that Machen was placed in charge of the Free-Delivery Service he began to study the methods of blackmailing contractors. He is known to have been interested in ten different lines of "graft," namely: Letter-carriers' tie straps, shoulder straps, letter boxes, package boxes, Groff fasteners, painting of boxes, carriers' satchels, carriers' cases, time indicators, and rural carriers' badges. He is named in 14 of the indictments. All lines of fraud for a time

seemed to lead to him. Inspector Fosnes aptly states that in this network of fraud "sat Machen like a fat spider, watchful and expectant."

With great skill he acquired influence over his superior officers. Many of the frauds that yielded him the largest returns, viz, those relating to package boxes, Groff fasteners, letter boxes, and straps, developed during the administration of Hon. Wilson S. Bissell as Postmaster-General and Frank H. Jones as First Assistant, two executive officers whose integrity can not be questioned. A change in the politics of the National Administration did not retard the progress of his corrupt operations. The growth of the postal service enlarged his opportunities, and he was not slow in taking advantage of them.

When a contractor for free-delivery supplies by some slip escaped without paying him the customary tribute, he was sure to be harassed by deferred payments and other convenient makeshifts of Machen to discourage further bidding on his part. This is illustrated by the experience of the Waddel Wooden Ware Works, of Greenfield, Ohio, which had the contract for free-delivery furniture. McGregor was on the committee of award and endeavored to give the contract to another bidder, but the committee resisted, and he was compelled to yield. The result was that the monthly payment of bills due this company was deferred. Payment of the bill for furniture delivered in September, 1902, was refused because it was alleged that the appropriation was exhausted, when but three months of the fiscal year had run. But while Machen refused to pass these accounts because of the "exhausted appropriation" he continued to pay Runkle, Crawford, Scheble, McGiehan, and others who were paying him tribute. Over $100,000 was paid to these fraudulent contractors from the appropriation that was "exhausted" when the honest contractor rendered his bill.

Machen does not seem to have considered a day of reckoning as possible; over nine years of continued prosperity had given him confidence. He had passed safely through two Congressional investigations—one in 1896, by the Committee on the Post-Office and Post-Roads of the House, and one in 1897, by the Committee on Civil Service and Retrenchment of the Senate. He had deceived his superior officers through the administrations of four different Postmasters-General and a like number of first assistants; but his schemes finally became so elaborate and their ramifications so extensive that the atmosphere became charged with suspicion; damaging stories affecting his integrity reached the ears of his superiors, and this investigation was ordered, with the results as narrated.

CHARLES HEDGES.

In 1898, at Machen's solicitation, two additional assistant superintendents of free-delivery were appointed, with salaries at $2,000 per annum and a per diem of $4 in lieu of expenses when traveling on official business. When at home on leave, or off duty on account of sickness or for any other cause, an assistant superintendent is not entitled to per diem. Machen's object was to have men under his immediate charge to investigate questions relating to free-delivery. Prior to that time these investigations had been made by the regular post-office inspectors.

On July 1, 1898, Charles Hedges was appointed an assistant super-

intendent. And on July 1, 1901, he was made superintendent of city delivery, which position gave him supervision of the free-delivery allowances.

During the early part of this investigation it was charged that Hedges had been using the influence of his office to induce postmasters and other postal employees to buy stock in mining schemes in which he was interested.

Inspectors Sutton, Jones, and Bennett were assigned to the case, and their report is submitted herewith (Exhibit M–1). It appears that Hedges was promoting a gold-mining scheme known as the "Oregon King Gold Mining Company," and that he sent advertising circulars to numerous postmasters setting forth the merits of this scheme. The circulars bore his own name as an officer of the company and his official title as superintendent of the city delivery. He inclosed with these circulars to postmasters his official card, and also wrote numerous letters suggesting that they buy stock or interest some of their friends in the scheme. These suggestions were frequently made in official letters. To illustrate:

The postmaster at Boston, Mass., in the fall of 1901 applied for an additional mechanic for his office. Hedges, in answer to his application, on November 30 wrote:

> The matter of assistant mechanic, owing to busy period, has not yet been taken up. It is more difficult, but will try and get around to it soon.

In this letter he inclosed an advertisement of the Oregon King Mining Company. On April 28, 1902, he again wrote the postmaster:

> Your favor of the 24th instant reached me last Saturday, and I was glad to hear from you and hope you will find the time to carefully read the Oregon King prospectus. * * * I will keep in mind the additional mechanic, and if it is possible will see that your wishes in the matter are carried out.

On May 8 following he again wrote:

> I shall certainly reach Boston later in the month. * * * Will then take up the question of the additional mechanic and other matters.
>
> Congressman Lewis, of Pennsylvania, with a few of his personal friends, has indicated the intention to subscribe for a portion of the remaining Oregon King shares. * * * If you have time and there is anything new in the situation from your standpoint, please let me hear from you.

The postmaster at Allentown, Pa., applied for additional car fare for his office. On May 13 Hedges wrote him:

> I gave the matter of additional car fare immediate attention and you doubtless have the notice by this time. Inclosed please find a letter in regard to a personal matter which may prove of some interest to you. If you are so situated as to be able to give the matter any consideration, it would be very gratifying. I trust that you will take hold of the matter and dispose of a block of the treasury shares. Hoping to hear from you in the premises.

These letters plainly indicate that when postmasters were asking for allowances that were under the control of Hedges he was continually importuning them to invest in his mining schemes.

Hedges states (Exhibit M–1) that he believed that literature sent in this way to postmasters would be given more attention than if it had been sent as a private individual. It therefore seems clearly established that Hedges did use his official position in order to induce postmasters to invest in his mining schemes.

It was also alleged that Hedges had loaned his official commission. This seems to be established by the following letters:

On September 17, 1899, he wrote to Waldo W. Valentine, a clerk in the New York post-office, detailed to assist Hedges in preparing his report, as follows:

Yours of Friday, the 15th, with the inclosures did not reach me until Saturday evening, when I returned from downtown. It was then too late to send my commission over with any certainty that it would reach you on Sunday. Had I known a day earlier that Mrs. Valentine was coming over and that you wanted to run over, I should have been glad to have sent my book.

On October 1, 1899, he again wrote Valentine:

Inclosed find book. I should like to see you Tuesday, and think I will view parade from our office. There will be room there also for your folks.

Hedges admits (Exhibit M–6) that he did loan his traveling commission to Valentine.

The gravest offense committed by Hedges, however, was the falsifying of his official diary, while assistant superintendent, in order to collect per diem to which he was not entitled. Under the provisions of the appropriation bill, assistant superintendents are entitled to a per diem of $4 "when actually traveling on business of the Post-Office Department."

On December 5 and 6, 1899, in his diary, Hedges reported himself "at San Antonio, Tex., on official business;" and on the 7th "at San Antonio, Tex., investigating carrier service," while in fact he was not at San Antonio, Tex., on any of those days, but in Mexico, looking after private business matters.

On December 7, 1899, he wrote a letter from Chihuahua, Mexico, to which he attached the following postscript:

At the office I am supposed to be still in Texas.

Yet in submitting his pay account for December, 1899, he stated under oath that he had been "actually traveling on the business of the Free-Delivery Service" during the days he was in Mexico.

In an affidavit (Exhibit M–4) Hedges admits that in October, 1900, he made a trip from El Paso, Tex., to Sonora, Mexico, consuming two days on personal business, and that he collected per diem for both days by stating in his official diary that he was at El Paso, Tex., engaged upon official business.

On October 24, 1900, Hedges wrote Valentine from Chicago, Ill., as follows:

I returned from Missouri and the West on Monday evening. Am at headquarters here for a few days. Am going to Mansfield to-night with my uncle, Senator Hanna, Heath, and others, to attend Mr. Sherman's funeral.

He admits (Exhibit M–6) that he was in Chicago on the 24th, the day he wrote the letter, and that he spent the 25th at Mansfield, Ohio, attending the funeral of ex-Secretary Sherman. Yet in his official diary he stated under oath that on the 24th he was "traveling enroute north, Joplin, Mo.," and on the 25th, "Joplin, Mo., extension of Free-Delivery Service."

Hedges also falsified his accounts frequently by reporting himself elsewhere when he was in the city of Washington, serving as Acting Superintendent of Free-Delivery.

On October 19, 1899, he wrote to Valentine as follows:

Yours of yesterday at hand this a. m. with inclosures. I have been getting data for annual report and must now get away to write something. I will leave in the morning with Mrs. Moodie for Atlantic City for a few days—her physician says she

must get away. Don't know yet at what hotel we shall stop. Please send my mail to me in care of the postmaster, Mr. Devine, who will see that it promptly finds me. Here, at the office, the impression is that I have returned to New York; therefore General Heath or Captain Fowler would communicate with me via New York in case they sent any message.

In his affidavit (Exhibit M–6) he admits that on the following day, October 20, he went to Atlantic City, as indicated in the above letter. Yet in his official diary for that day he states under oath that he was in—

New York, collection service at branch stations 1 and J.

Many dates could be cited showing that at different times he reported himself in New York, Philadelphia, Bridgeport, Conn., and other cities, when in fact he was in Washington. His purpose in making such false statements was to collect per diem, to which he was not entitled.

The above facts were submitted on July 22, 1903, to the Postmaster-General, who immediately ordered his dismissal from the service.

CHARLES T. M'COY.

Charles T. McCoy was appointed an assistant superintendent of free-delivery on January 2, 1900. During the progress of this investigation it came to the knowledge of the Department that he also had made false entries in his diary for the purpose of collecting per diem to which he was not entitled.

The case was investigated by Inspectors Sutton, Jones, and Bennett, whose report is submitted herewith (Exhibits M–9 and M–10). Their investigation disclosed that at various times McCoy had reported himself as "engaged in traveling upon the business of the Free-Delivery Service" when he was not.

The inspectors recommended McCoy's removal, in which recommendation I concurred. McCoy, on October 17, however, submitted his resignation, and in consideration of his services as a Union soldier in the war of the rebellion he was permitted to resign.

H. H. RAND.

H. H. Rand was appointed an assistant superintendent of the Salary and Allowance Division on April 1, 1902, and assigned to the office of the Postmaster-General to perform such services as the Postmaster-General might direct.

It has been charged that Rand was interested in the promotion of numerous speculative enterprises, mostly mining companies; that he used his official position to induce departmental employees to invest in his schemes; that at his request a departmental clerk was assigned to do his stenographic work, which consisted almost wholly of letters relating to his private business; that he, in the capacity of a lobbyist, aided in the passage of what is known as the Parrish ice claim.

By direction of the Postmaster-General an investigation was made of these charges, Inspectors Sutton, Bennett, and Jones being assigned to the case. Their report is submitted herewith, marked "Exhibit N."

MINING COMPANIES.

It appears that in the spring of 1902 A. W. Machen, John D. King (employed in the Rural Free-Delivery Division), and H. H. Rand bought from Dr. S. W. Scott an alleged copper mine in Mexico. A com-

pany called the National Capital Copper Mining Company was organized and chartered under the laws of the State of Virginia, with a capital stock of $150,000. The directors were A. W. Machen, H. H. Rand, J. D. King, H. M. Baker, David Fenton, George E. Lorenz, Thackeray E. Lee, F. M. Criswell, and S. W. Scott. Machen was elected president, Rand vice-president, King secretary, and Baker treasurer. The price of the stock was fixed at 37½ cents per share, and each one of the directors took a small amount.

All persons who were supposed to have knowledge as to Rand's having solicited departmental employees to buy the stock were interviewed by the inspectors (Exhibit N).

J. J. Howley, chief clerk to the First Assistant Postmaster-General, says (Exhibit N–4) that shortly after Rand came to Washington he told him he had an option on a mining property in Mexico, and was looking for some one with $2,000 to go into it with him, at the same time asking him if he had that amount.

Mae C. Wood states (Exhibit N–6) that when she, as stenographer, was writing letters for Rand, he talked to her about buying some stock in his mines, but that she declined to make the investment.

Clara C. Bangs states (Exhibit N–5) that soon after Rand came here

> he asked me if any of the people around here had any money. I replied that I thought Machen and Beavers had it all. Not long, as I remember, after that he informed me one day that they had "made Machen president of our mining company." This was a long time before the company was incorporated and now known as the National Capital Copper Mining Company.

She further states that he told her that the stock of this company was advancing rapidly, and that it would be a good thing for her to put some money into it.

E. F. Warren, a laborer in the Department building, stated that on one occasion Rand, in passing him, handed him a circular bearing upon some mining company, but that he did not ask him to purchase any stock.

All officers or employees of the Department who own stock declared that they did not buy it from Rand, nor were they ever solicited by him to buy stock.

D. H. Fenton, law clerk in the Sixth Auditor's office, says that Machen first called his attention to the stock, and that he purchased it after he discovered that ex-Congressman H. M. Baker was interested in the company; but that he never was solicited by Rand. Others said that Machen had advised them to buy stock, but that they had never been approached upon the subject by Rand.

The inspectors interviewed about thirty other clerks whom it was alleged Rand had asked to buy stock, but, except Howley, Miss Wood, and Mrs. Bangs, they all denied that he had ever solicited them to buy stock in any mining company.

The directors of the National Capital Copper Mining Company had frequent conferences, usually at the Department, in Rand's room, sometimes in Machen's or King's. Rand, Machen, and King state that such meetings were always after office hours. Miss Wood and Mrs. Bangs state that usually they were during office hours. In addition to this copper mine, Rand seems to have been interested in two Mexican haciendas and to have owned stock in the Hidalgo Mining Company, of Mexico, and several other companies. He also endeavored to interest friends in two marble companies, one in Colorado and

the other in Virginia; a copper mine at Mount Washington, Md.; a smoke-consuming device, which he discovered at Baltimore, and other enterprises of a similar character. He was also interested with a Mr. Everett in a trust company at Chicago.

A letter was sent (Exhibit N–10) to all the postmasters at free-delivery post-offices in the country, inquiring if any officer of the Department had ever solicited them or any employees in their offices to purchase stock in any mining company or other enterprise, and none of their answers indicate that Rand ever tried to interest them in any of his companies. The only evidence that Rand solicited clerks in the Department to buy his stocks is that contained in the statements of Howley, Mrs. Bangs, and Miss Wood.

USE OF DEPARTMENT CLERK FOR PRIVATE WORK.

Mrs. Bangs states that she is a stenographer and telegrapher in the office of the First Assistant Postmaster-General; that Rand required so much of her time to attend to his correspondence relating to private schemes that she was compelled to complain to J. J. Howley, chief clerk to the First Assistant Postmaster-General, stating that she could not do Rand's work and keep up her regular office duties; that after such complaint she was relieved by Miss Mae C. Wood, a clerk in the Money-Order Division, being assigned as Rand's stenographer.

Miss Wood states that her time was taken up almost wholly with correspondence relating to Rand's private business. She was afterwards succeeded by W. R. Mackrille, a clerk in the Rural Free-Delivery Division. Mackrille (Exhibit N–7) says that Rand did very little writing, and that what he did referred mostly to official business which had apparently been assigned him by the Postmaster-General; but that occasionally he wrote letters relating to Rand's private business. It appears, therefore, that Rand did ask the stenographer assigned him to write his personal letters; and that there is a conflict of statements as to the amount of time consumed by the clerks in this work.

PARRISH ICE CLAIM.

During the last session of Congress a bill was passed authorizing the Secretary of the Treasury to pay a claim which J. W. Parrish alleged was due him for furnishing ice to the Government during the late civil war. Parrish formerly lived at Madison, Wis., and is an acquaintance of Rand. The allegation has been made that Rand aided him in securing the passage of this bill by importuning members of Congress and Senators in its behalf. Where it was practicable, the members of the Committee on Claims of both the House and Senate were interviewed by the inspectors, and their answers are submitted herewith, marked "Exhibit N–12." Nine members of the Senate committee and 14 members of the House committee answered, and all stated, to the best of their knowledge and recollection, that Rand never appeared before the committee nor spoke to them personally in regard to the bill.

It seems that Charles Hedges, late superintendent of city free delivery, did speak to some members of Congress in behalf of the passage of this bill; but there is no evidence that Rand asked any member of Congress to vote for the measure.

Mae C. Wood, who seems to be hostile to Rand, delivered to J. J.

Howley, chief clerk to the First Assistant Postmaster-General, copies of letters taken from her notebooks while she was serving as Rand's stenographer, indicating that he had been in correspondence with Harrison J. Barrett and others in regard to cases pending before the Department against "get-rich-quick" concerns; but it seems that these letters were written to secure information in regard to the attitude of the Department toward a number of alleged building associations which were doing business in Kansas City, Mo. This information was desired by Everett, president of the trust company in which Rand was interested, in Chicago, an institution that appears to be doing a legitimate business. It does not appear that Rand was ever interested in any of these cases, nor that he was seeking in any way to influence the action of the Assistant Attorney-General's Office.

It does appear, however, that Rand has been indiscreet in his relations with certain departmental officials. He became an intimate friend and partisan of A. W. Machen, but that was probably more through the designs of Machen than Rand. Machen, always anxious to establish close relations with powerful influences, thought that he saw through Rand a direct connection with the Postmaster-General, and therefore readily interested himself in some of his mining schemes. Rand probably was not aware of Machen's real purpose; but coming into the Department as he did, as the personal appointee of the Postmaster-General, it is unfortunate that he should have allied himself with Machen in such a way as to become his partisan defender when charges were filed against him. With the exceptions of the remarks made to Howley, Miss Wood, and Mrs. Bangs, as to the value of his mining stock, and the dictation of letters relating to private business to an official stenographer, the evidence submitted by the inspectors does not sustain the charges made against Rand.

JOHN M. MASTEN.

During the early part of the investigation the Department was flooded with anonymous charges against different postal employees. Much time was spent in investigating vague and indefinite statements. Two of these anonymous charges were directed against John M. Masten, assistant superintendent Railway Mail Service, formerly chief clerk to the First Assistant Postmaster-General. It was alleged that while he was chief clerk he had solicited bribes from clerks for promotions. Inspectors Hall and Ketcham were directed to make a thorough investigation, and their report is submitted herewith (Exhibit O).

C. B. Terry, a clerk in the Supply Division, proved to be the author of the charges. He declared to the inspectors that Masten had attempted to force him to pay $100 to secure a promotion. He submitted a long statement under oath to that effect, giving details which he alleged could be corroborated by other clerks. The inspectors interrogated the clerks referred to, but they all contradicted Terry's statement on material points.

Further inquiry developed that Terry, while employed as a clerk in the Dead-Letter Office, was most offensive to other clerks in the room with him; that he frequently threatened to "spit" on a female clerk employed in the same division; that he would, in an irritating way, mock another clerk who had bronchial affection; that he had himself attempted to secure money from other clerks upon the pretense that

he could influence their promotion; and that before his entry into the postal service he had been imprisoned for murder committed while a police officer (Exhibit O).

The inspectors, after a thorough investigation, found no evidence to sustain the charges against Masten, but did secure evidence that Terry had made false statements, under oath, and that he was a person wholly unfit for the public service. They recommended that the case against Masten be closed and that Terry be removed from the service; in which I concur.

Masten's connection with the contract for Bundy clocks will be discussed in another chapter of this report.

Terry was removed October 21, 1903.

DIVISION OF SALARIES AND ALLOWANCES.

George W. Beavers entered the postal service in 1881 as a clerk in the New York post-office at a salary of $900 per annum. In March, 1890, he was transferred to the position of post-office inspector, in which capacity he served until August, 1897, when, upon the recommendation of Perry S. Heath, First Assistant Postmaster-General, he was appointed chief of the Salary and Allowance Division. On March 24, 1903, when Beavers learned that an investigation of his official conduct had been ordered, he immediately resigned.

While Heath was First Assistant Postmaster-General, Beavers was given a free hand in official matters.

Beavers's methods of administration were reckless and without rule or regularity. Increases of allowances for clerk hire in post-offices were made as matters of favor, regardless of the necessities of the service. Promotions were made in the same way, little consideration being given to the merits of the clerk promoted. Long time leases for post-office premises were canceled and the rent increased upon the recommendation of influential Senators and Representatives, or at the request of prominent political leaders, sometimes without regard to the rental value of the premises.

Under the latitude given him by the First Assistant Postmaster-General, Beavers distributed the millions appropriated for salaries and allowances in such a way as to create a sense of personal obligation on the part of those receiving his official favors. He was not, however, unmindful of his own interests. When appointed chief of Salaries and Allowances, the salary of that position was $2,500 per annum. During his incumbency it was increased, first to $3,000, when the title was changed to superintendent; then to $3,500, and finally to $4,000, with the official designation of general superintendent. But salary alone did not satisfy him.

SALE OF PROMOTIONS.

When this investigation was ordered, one of the first matters assigned to the inspectors was the alleged sale of promotions to post-office clerks in New York City, Jersey City, and Bayonne, N. J. Beavers took an active interest in the National Association of Post-Office Clerks. The ordinary dues of membership in that association are light, as its legitimate expenses are small. While Beavers was Superintendent of Salaries and Allowances a fund was created, known

as the "legislative fund." Contributions were asked upon the representation that they were necessary in order to secure the passage of a law by Congress increasing the pay of post-office clerks.

Otto F. Weis, a clerk in the registry division of the New York post-office, an intimate friend of Beavers, whose salary has been advanced under his régime from $1,200 to $1,800, was made chairman of the legislative committee of the association. Weis called for contributions, and stated (Exhibit P–1) that he collected from $8,000 to $10,000 for this fund. His bank account, however, at the Colonial Trust Company, where these funds were deposited, beginning with February 18, 1899, aggregates $19,154.01; and I am of the opinion that this represents the amount of his collections. He states that he used about $3,000 of this money for expenses, and that the balance, amounting to $6,000 or $7,000, he paid to Benjamin Parkhurst, of Washington, D. C., who also was an intimate friend of Beavers. Parkhurst was for years superintendent of a station of the Washington City post-office. He declined to state what he did with the money paid him by Weis. Parkhurst himself has a bad reputation. He was retained in the service and promoted through the influence of Beavers, and without his support would have been removed for intoxication and neglect of duty upon more than one occasion (Exhibit P–9). On April 2 of this year he was removed from the service for a most revolting act of immorality.

During the investigation many of the clerks in the New York, Jersey City, and Bayonne post-offices were examined under oath (Exhibits P–2, P–3, P–4, and P–5). Three state (Exhibit P–3) that they were told by friends of Weis that if they would join "his association" and contribute to the legislative fund they would receive a promotion of $100 July 1, 1900; but they declined, and were not promoted. Seven clerks state (Exhibit P–2) that they paid the amounts requested of them and were promoted as promised. In nearly all of these cases those who paid the money were assured that if the promotions were not made the money would be refunded.

A number of promotions were made solely at the request of Weis (Exhibit P–6). On July 20, 1899, Weis wrote Beavers asking the promotion of Isaac Fisher, clerk in the New York post-office, from $700 to $800 per annum, and R. C. Kindred from $800 to $900. The next day the postmaster was directed, in a letter initialed by Beavers and signed by the First Assistant Postmaster-General, to make the promotions. These clerks both contributed to the legislative fund which Weis was collecting. In time it became quite generally understood in the New York post-office that promotions could be secured by joining the association and contributing to Weis's legislative fund.

In October, 1899, Weis suggested to Frank C. Hay, a clerk in the Jersey City post-office, that he could have the salaries of the clerks in Jersey City and neighboring post-offices increased $100 per year upon the payment of 2½ per cent of their salaries. Hay states (Exhibit P–4) that Weis told him this money was to be paid to Beavers, after deducting the expenses for collecting. A number of clerks in Jersey City and Bayonne were interviewed by Hay, and shortly after he collected and turned over to Weis the following amounts:

E. H. Whitney, assistant postmaster, Bayonne	$25.00
Bertram Cubberley, clerk, Bayonne	12.50
Simeon Bullen, clerk, Jersey City	25.00
James A. Coyle, clerk, Jersey City	25.00

and $35 which he contributed himself. Joseph F. Hart, a clerk in the Jersey City post-office, paid Weis $25 direct. All these persons were promised promotions and told that if the promotions were not received the money would be returned (Exhibit P–4). The assistant postmaster and clerk at Bayonne were promoted; and Beavers, in a letter dated June 1, 1900, to the postmaster at Jersey City, directed the promotion of Hay, Hart, Bullen, and Coyle. The letter began as follows (Exhibit P–7):

In compliance with your recommendation, the following changes in your roster of clerks are approved.

The roster referred to contained the names of Hay, Hart, and Bullen. But the postmaster had not recommended the promotion of these three clerks; he had, however, recommended the promotion of Coyle. Upon receipt of Beavers's letter the postmaster entered a vigorous protest against the promotion of Hay, Hart, and Bullen without his recommendation, and sent E. W. Woolley, his assistant, to Washington to confer with the Department in regard to the matter. Woolley called upon Beavers and told him that the postmaster objected to the promotion of these clerks and insisted that they be not advanced over his objection (Exhibit P–4). Beavers then stated that the papers had been completed; that he had granted an increase to these three clerks at the request of the clerks' association. Woolley, however, still insisted that their names be taken off the list and the promotions canceled. Beavers did not care further to resist the positive stand the postmaster had taken, and on June 29 he canceled the promotions in a letter as follows (Exhibit P–7):

In compliance with your request of the 23d instant, the increases in salaries of S. Bullen, Joseph F. Hart, and Frank C. Hay, in the sum of $100 per annum each, as authorized by my letter of the 1st instant, are hereby canceled.

Soon after this letter was written, Weis returned the money which he had collected from Hay, Bullen, and Hart; but the money contributed by Coyle was not returned, his promotion not having been canceled.

Weis admits that he paid Parkhurst about $8,000 to promote legislation, that he visited Washington numerous times for that purpose, and that he and Parkhurst occasionally had conferences with Beavers. On the 21st of April, while the inspectors were making this investigation, Parkhurst went to Jersey City and sent Hay the following note (Exhibit P–4):

DEAR FRANK: Would like to see you for a few minutes; very important. Am at the saloon, corner Washington and New York. Make it soon as possible, and answer by bearer.

Yours, sincerely, PARKHURST.

Shortly after the receipt of this note, Parkhurst called upon Hay and inquired if the inspectors had seen him and what they were doing. He further asked Hay to deny everything and say that the money collected was for legislative purposes and not to secure promotions, stating that Weis had agreed to make a similar statement. Parkhurst further said that he would decline to give any account whatever as to what he had done with the money; that he was seeing all of the clerks in New York and Jersey City and asking them to make similar statements.

The facts were submitted to the United States attorney for the District of Columbia early in May, and he recommended against prosecution

upon the ground that the evidence was not sufficient to warrant criminal action. On May 31, 1903, the statute of limitations had run against the last act on Beavers's part of which the inspectors had positive evidence, and further effort toward criminal process against Beavers and Weis in this case was dropped for that reason. I recommend, however, that Otto F. Weis be immediately removed from the service and that action against all other clerks involved be suspended until the completion of the investigation of the New York post-office.

CLERK HIRE.

The appropriations for clerk hire are made under two heads: "For compensation to clerks in first and second class post-offices," and "For separating mails at third and fourth class post-offices." Under the first head provision is made for a specific number of clerks of each grade—that is, a certain number at $900 per annum, at $1,000 per annum, etc. The allotment of the salaries so provided to clerks in the offices throughout the country is under the direct supervision of the General Superintendent of Salaries and Allowances. In the case of third and fourth class offices a sum of money is allowed for separating purposes, which may be used by the postmaster in the employment of one or more clerks.

In the disbursing of these appropriations great latitude is given the Department. The amount allowed to third and fourth class offices is based upon the number of pieces of mail handled in transit, or because of some exceptional or unusual business—that is, where star routes run from a third or fourth class office the postmaster is required to make up the mail for the offices located upon these star routes, and the Department may make him an allowance for the employment of a clerk to do that work; or if the business of an office becomes abnormally large, because of unusual or unexpected conditions, a special allowance may be made for the employment of clerks to handle such business. By the wording of the statutes, wide discretion is given the Department in the assignment of this fund among the third and fourth class offices.

When the postmaster at a third or fourth class office asks for an allowance for clerk hire the rule of the Department is to require him to count the number of pieces of transit mail handled during a stated period, and his report of the result becomes the basis for the allowance. If for any reason the count is believed to be erroneous a special investigation is made.

When additional clerical help is required at an office because of unusual conditions, as at summer resorts, or such as caused by the rush to the gold fields of Alaska, or to the newly opened lands in Oklahoma, a report is required upon which the Department may base an allowance for the proper transaction of the postal business.

After Beavers became chief of the salary and allowance division little consideration was given to the rules for the assignment of clerk hire. If for any reason he did not care to make an allowance requested, the rule of the Department would be given as a reason for declining, but he never permitted the rules to interfere with any allowance that he desired to make.

The appropriation for clerk hire of all kinds was in one lump sum until 1898, when it was segregated, and $750,000 provided for clerk hire at third and fourth class offices. The amount has been increased year by

year until it is now $1,300,000. This appropriation, averaging over a million dollars annually, has been distributed by Beavers largely by personal favor. If a Senator, member of Congress, or any prominent politician, requested an increase in the clerk hire allowed a postmaster, Beavers usually complied, regardless of the merits of the case. When such a request came from an influential member of Congress, Beavers would frequently write him, stating that while under the rules the postmaster was not entitled to the amount asked, yet—

because of your personal interest in the matter the allowance has been made.

The postmaster would then be advised that, "at the earnest solicitation of Congressman Blank," his clerk hire had been advanced, etc.

The distribution of large appropriations of public money as matters of personal favor, regardless of departmental rules and in violation of the law, can not be condoned. To illustrate (Exhibit Q):

At Lestershire, N. Y., on March 1, 1902, the postmaster asked for an allowance for clerk hire, which request was supplemented by a recommendation from the Member of Congress. The postmaster was directed to make a count of the transit mail handled, and in reply he advised the Department that his office was not a distributing office. No unusual conditions prevailed at this office, and under the law it was not entitled to clerk hire; yet an allowance of $300 per annum was made.

At Dysart, Iowa, the Member of Congress representing the district recommended that if it could consistently be done the postmaster be granted clerk hire. The office is not a distributing office and no unusual conditions prevailed, yet an allowance of $300 was made.

At Phoebus, Va., the postmaster asked for clerk hire, and on April 3, 1900, he was allowed $200. On June 30, 1900, he applied for an additional increase because of the summer business; and without any investigation the allowance was advanced from $200 to $400, and on March 1, 1901, the allowance was increased to $600. The gross receipts for the quarter ended June 30, 1902, were $671.31; for the quarter ended September 30, 1902 (the summer quarter), $593.79, showing that while an increase of $400 per annum was given this postmaster because of increased summer business, in fact there was a decrease in the business of his office during the summer months.

Pinckneyville, Ill., was receiving $80 per annum for handling transit mail. The postmaster, on February 27, 1899, asked for an additional allowance, and a count was ordered. Upon receiving the report of the postmaster his allowance was increased to $110 per annum, though the record shows that under the rules the count entitled him to $190 per annum. In April, 1902, the postmaster asked for another increase. He was directed to make a count. This was done, and the report showed the office entitled to $340 per annum. In the meantime the Member of Congress recommended that the clerk hire be advanced from $110 to $650, and his recommendation was complied with. Thus, $300 more than the office was entitled to was now given this postmaster, who formerly had been unable to get what was due under the Department's rules. After Beavers's resignation the clerk hire at this office was reduced from $650 to $110 per annum. The postmaster complained of this action by the Department, and the matter was referred to an inspector for investigation. On September 5, 1903, the inspector in his report (Exhibit Q–11), referring to the postmaster, said:

He candidly stated to me that he was somewhat surprised when he was officially informed that said allowance had been increased from $110 to $650, as he did not

expect this apparent large increase. However, he believed that he was entitled to a larger allowance than he had been receiving prior to July 1, 1902.

At Tryon, N. C., a fourth-class post-office, on August 23, 1897, the postmaster applied for clerk hire. A count was ordered, and the report indicated the post-office was entitled to $140 per annum for separating purposes. Upon the recommendation of Harrison J. Barrett $250 per annum was allowed, which in September, 1898, was increased to $600.

The postmaster at Duquoin, Ill., in December, 1901, wrote Senator Mason and asked him to secure $500 per annum for clerk hire, promising that if he should do so he would devote his time to the Senator's campaign for reelection.

The Senator referred the letter, without comment, to Beavers. The postmaster was directed to keep a count of the transit mail handled. In answer to this he submitted a statement showing the local work of his office. He was informed that no clerk hire could be allowed under the law for local work, and that he should submit a statement of the amount of transit mail handled. To this the postmaster never replied, but on March 13, 1902, the Member of Congress recommended that an allowance of $500 per annum for clerk hire be given this office, and the request was complied with. On January 5, 1903, without further inquiry as to the amount of mail handled, the clerk hire was increased to $700, and on February 13, six weeks later, it was again increased to $900. Under the rules of the salary and allowance division this office, on the basis of a count made in August, 1903, is entitled to $60 per annum.

John W. Langley, appointment clerk of the Census Office, on December 6, 1900, requested an increase in the allowance for clerk hire at Prestonsburg, Ky., the postmaster being his sister. The allowance at that time was $240. A count was ordered, and the report showed the office entitled to an allowance of $250 per annum, but an allowance of $500 was made. In February, 1902, upon the recommendation of Mr. Langley, the allowance was increased to $700.

In May, 1900, the Member of Congress recommended that the allowance for separating purposes at Conyers, Ga., which was then $40 a year, be increased. A count was ordered, and the report showed the office entitled to $160 per annum; only $100, however, was allowed. The Congressman, on November 29, 1901, called personally, and as a result the allowance was increased on December 10, 1901, to $820. This increase of $720 was paid to a clerk recommended by the Congressman. On July 1, 1902, the clerk who had been receiving the $720 was transferred to a position in another office and the allowance was then reduced to $100 per annum. In August, 1902, a count was made that indicated the office was entitled to $210 per annum, and $200 was allowed. The above plainly demonstrates that the $720 allowance was made to give a clerk employment and not because of the amount of work in the office.

The office at Herndon, Va., has had an allowance of $100 per annum for clerk hire since October, 1897. On June 26, 1902, the postmaster was directed to employ Mrs. Laura M. Landreau as a temporary clerk in his office for two months, and was authorized to expend $100 for that purpose. Her services were continued by order of the Department, from month to month, until April 30, 1903, when they were discontinued. The inspector in investigating this case says:

It will be noted that in the period, July 1, 1902, to April 30, 1903, the small (fourth-class) post-office at Herndon, Va., has been authorized to pay Mrs. Laura

M. Landreau $470 as temporary clerk. The payment ceased April 30, 1903. In the meantime Mrs. E. G. Sweetzer, postmaster, has been allowed at the rate of $100 per year for clerical assistance.

As a matter of fact, postmaster states that Mrs. Landreau as a general thing did little or nothing. She came into the office now and then, and, in emergencies, has been known to remain all day in the office. Her services were surperfluous, and it was understood by the postmaster, by the public, and by Mrs. Landreau herself that the money was paid to her as a gift and in no sense of the word for services rendered the post-office establishment.

At Port Deposit, Md., the postmaster was receiving an allowance of $60 per annum for separating purposes. On February 13, 1903, the Member of Congress asked that on account of increased business the allowance be made $500, and that Ethel W. Colvin be designated as the clerk at that salary. On February 17 he was advised that the increase had been authorized to take effect March 1. On February 27, the postmaster having refused to appoint Miss Colvin, the Congressman wrote, stating that fact and suggesting that the allowance be reduced to $60, which was immediately done.

Rockville, Md., July 1, 1897, was allowed $300 clerk hire. On April 18, 1899, this amount was increased without application from the postmaster from $300 to $900, and he was directed to appoint Frank M. Page, of Norbeck, Md., as a clerk in his office. On August 17 of the same year the amount was increased from $900 to $1,400 per annum. May 29, 1900, an inspector reporting on this office (Exhibit Q-2) stated:

Since September 27, 1899, three clerks have been employed in this third-class office, with the postmaster's salary only $1,400—F. M. Page, $600; W. L. Bean, $400, and John J. Higgins, $400, until Mr. Page was transferred April 5, 1900.

Comparing the amount of work performed at this office with other services of the same class the clerk-hire allowance is $1,000 more than the service requires, and I therefore recommend that it be reduced to $400.

On June 14, Page having been transferred elsewhere, the allowance was reduced to $800. On February 1, 1902, it was increased to $1,100. After Beavers's resignation on June 8, the allowance was fixed upon the basis of work required at $360 per annum.

The foregoing cases refer to clerk hire in third and fourth class offices. A hundred other similar cases could be cited. The millions that have been appropriated for that purpose during the last four years have been used by Beavers largely as an official perquisite for the benefit of his personal and political friends. The necessities of the service and the rights of postmasters, based upon the amount of work performed, have been given little consideration.

OFFICES OF FIRST AND SECOND CLASS.

It was, however, in offices of the first and second classes that Beavers reached his climax of reckless and criminal waste in the matter of clerk hire. Clerks were appointed in post-offices without evidence that any additional clerical help was needed, and sometimes over the protest of the responsible head of the office. Promotions were made without consulting the postmaster. Clerks were placed upon the rosters of post-offices and paid, although no service was rendered. In some instances this was done with the consent of postmasters, and sometimes over their protests. Changes were made in the titles of clerks or employees in offices in order to increase their salary (Exhibit Q-6), while the duties performed would remain the same. To illustrate:

W. Scott Towers was superintendent of Station C, of the Washing-

ton post-office. The salary of this position is fixed by law at $2,000 per annum. On May 1, 1902, his roster title was changed to that of "cashier," and his salary advanced to $2,200, and on January 1, 1903, increased to $2,500. He still remained superintendent of the station and never performed any of the duties of cashier. The change in roster title was solely for the purpose of giving him more salary than the position he held entitled him to.

Cashiers have been appointed at post-offices where their services were neither needed nor desired by the postmaster. Numerous instances of this kind appear on the rolls of the first-class post-offices throughout the country. In five first-class post-offices assistant postmasters have been designated as cashiers, for the sole purpose of giving them larger salaries than they were entitled to under the law. Forty-eight clerks at first-class post-offices have been receiving salaries of from $100 to $400 per annum in excess of what their roster titles show them entitled to.

The wholesale disregard of the regulations by departmental officers has been considered by some postmasters as license for them to follow the same practices, and has created in the minds of many postal employees loose notions of official integrity.

At Seymour, Ind., the postmaster, on October 14, 1899, asked for an additional clerk and recommended the appointment of John B. Shepard, at a salary of $500 per annum. On October 18, four days later, he was advised that the request must be declined, as the appropriation for clerk hire for the current fiscal year was exhausted. Eight days later, October 26, he was authorized to appoint Shepard as a stamper at $500 per annum. On November 21, less than a month later, J. G. Wheaton was appointed a stamper at $600 per annum. On October 30 the postmaster was authorized to appoint Otto B. Weik as a stamper in the same office at $600 per annum. And on December 4 George A. Winkenhofer also was appointed a stamper at $600 per annum; thus within sixty days of the date that the postmaster was advised that an additional clerk could not be allowed because of an exhausted appropriation, he was given four additional clerks. Only one of these clerks, however, Winkenhofer, was permanently retained in that office, the others having been transferred to other positions shortly after the office became classified, on January 15, 1900.

On July 1, 1902, at Louisville, Ky., Ernest S. Langley was appointed against the wishes of the postmaster, as his private secretary, at a salary of $1,200 per annum. He was assigned to the position of secretary to the superintendent of the money-order division. Both the superintendent and postmaster state that Langley is worthless as a clerk (Exhibit Q–3) and does not earn $500 a year.

At Wauwatosa, Wis., Walter J. Thomas was appointed stamper at $600 per annum May 5, 1902. He was sworn in on June 13, and drew pay from that date to April 1, 1903, although he performed no service except to go to the office occasionally and draw his pay. The postmaster protested against payment to Thomas when no service was performed, but he was directed by Beavers to pay him his salary. Thomas was paid in all $479.67, for which he rendered no service. The inspector who investigated the case (Exhibit Q–7) recommends that Thomas be required to reimburse the Department in that amount, and the case was referred to the Auditor for his consideration.

On January 12, 1899, the postmaster at Fredonia, N. Y., was directed

to appoint Minerva Jeffrey as a clerk in his office at the rate of $600 per annum (Exhibit Q–5). The postmaster states that he never saw Minerva Jeffrey; that she did no work in his office, but that she drew pay from January 15, 1899, to June 15, 1899, $251.66 in all; that her payments were sent by check to Washington. An examination of Beavers's bank account shows that these checks were deposited in his personal account. She was afterwards transferred from the rolls of the Fredonia office to Burlington, Vt., and her salary fixed at $1,200 per annum. In that office she rendered service. On March 11, 1903, she was transferred to the New York post-office, where she is now employed.

Maurice Hooker was appointed a laborer in the post-office at Fredonia, N. Y., at $400 per annum, on January 1, 1902, and though he did no work in the office he drew pay at that rate until June 30, 1903, amounting to $600. He employed a substitute for a part of the time at an expense of about $150.

At Fredonia, N. Y., on October 11, 1898, the postmaster was directed to appoint Frank P. Ball as laborer, at a salary of $600 per annum, which he did; and Ball was carried on the rolls at that rate from October 12, 1898, to December 31, 1902, and paid $2,532.07, for which he rendered no service whatever, being engaged most of the time in the ticket-brokerage business at Dunkirk, N. Y. This period covers a part of the terms of two postmasters; both of them, however, certified Ball as regularly employed.

The Auditor was notified of this irregularity, and as a result a draft was drawn against the late postmaster, Arthur R. Moore, for the amount paid Ball while he was postmaster, $647.28, which was promptly paid. The remainder, $1,884.79, has been charged against the account of the present postmaster, Melville H. Taylor, which he promises to pay as soon as he can secure the money.

At Dunkirk, N. Y. (Exhibit Q–9), John A. Link was appointed a laborer in the post-office on May 1, 1898, at $600 per annum, and drew pay until June 30, 1903, without rendering service. He was a barber and continued to work at his trade during all that time. He received in all $3,100.55, less about $171 paid for a substitute by Postmaster Barnard; of this, $2,626.09 was paid while F. C. Nagle was postmaster, and the remainder, $474.46, during the term of F. B. Barnard, the incumbent.

This case was reported to the Auditor and drafts drawn for the above amounts. Nagle, the late postmaster, refused to pay, but Postmaster Barnard paid the amount due from him. Nagle, who was postmaster when Link was appointed, declines to state why he was placed upon the rolls of the office and permitted to draw pay without rendering any service.

At Baltimore, Md., on January 1, 1898, John W. Pettit was appointed an auxiliary clerk at $200 per annum (Exhibit Q–4). He neither performed duty nor drew pay until July 21, 1898, when his salary was increased to $600 per annum, and from that date he drew pay regularly, but performed no service whatever. On September 30, 1899, his roster title was changed to "bookkeeper" and his salary increased to $1,500. This salary was paid him by the postmaster, although he performed no services until September 9, 1902, when two substitutes were appointed to do Pettit's work—one at $700 and one at $800. The salary was then paid to these substitutes until May 5, 1903, when Pettit

was assigned to duty. The postmaster says he protested to Beavers against the appointment of Pettit, stating that he was personally distasteful to him, and that he would not permit him in the office. But at the same time he certified his name to the Auditor every quarter during the entire period as a regularly appointed clerk rendering service, and made no protest to the Department, as did the postmaster at Wauwatosa, Wis. It therefore appears that by the order of Beavers and the acquiescence of the postmaster, Pettit was paid $5,130.96, for which he performed no service whatever. This case has been referred to the Auditor with the recommendation that the amount be collected.

Since the resignation of Beavers a great deal has been done by the Department to correct the gross administrative irregularities in regard to clerk hire. The cases of Fredonia, Dunkirk, and Baltimore will be submitted to the Department of Justice for advice as to whether criminal action should be brought against the parties concerned.

There should be, either by law or departmental regulation, more specific rules governing the distribution of the appropriations for clerk hire. While both law and regulation were ignored by Beavers, yet it appears to me that too wide discretion rests with the executive officers in the disbursement of these large appropriations.

LEASES.

The leasing of premises and furnishing of light and fuel for first, second, and third class post-offices is under the immediate supervision of the salary and allowance division.

The statutes limit the amount of rent to be paid for a third-class office to $400 per annum, and for fuel and light to $60, while the allowance for rent, fuel, and light for first and second class offices is not limited by law, being left to the discretion of the departmental officials.

Formerly it was the practice of the Department in leasing premises for post-office purposes to direct an inspector to visit the city, give public notice, and invite proposals from the property owners. The inspector was required to report as to the size, quality, and rental value of the buildings offered, their desirability as to location, and any other information that would aid the Department in passing upon the merits of the proposals submitted. When sufficient information was secured, a site would be selected and a lease executed, usually for a period of five years, with a proviso that the Government might at any time cancel the lease, if the interests of the postal service required it, by giving three months' notice. Sometimes it was found necessary to omit the "three-months' clause" in order to secure the most desirable location, but these instances were very rare. In 1898 a law was enacted authorizing the Department to make leases for a period not exceeding ten years. On November 2, following the enactment of this law, the First Assistant Postmaster-General, in a letter intended as a guide to inspectors when investigating lease cases, stated (Exhibit R):

> While the Department has authority to execute a lease for a period of ten years, it is not deemed advisable to do so, unless it can be demonstrated that a positive advantage to the service will be secured thereby.

It appears, therefore, that it was the purpose of the law for the Department to execute leases for a period of ten years only when such action was advantageous to the Government. This policy, however, was not consistently carried out.

CANCELING LEASES.

On January 12, 1899, W. Scott Towers, secretary and treasurer of the Union Building Company, submitted a proposal to lease premises consisting of a room 40 by 95 feet, with one 9½ by 17 feet in the rear, for Station G of the Washington post-office, for $3,500 per annum. This proposal was accepted, and lease executed April 1, 1899, for a period of five years. On March 6, 1903, more than a year before the expiration of the term of the lease, another proposal was submitted by Towers for a lease of the same quarters for a term of ten years at the same rental, with the "three-months' clause" eliminated. This was accepted by Beavers on March 13, a new lease executed, and the old lease canceled. The only purpose Beavers possibly could have had in accepting this proposal was to give Towers a lease on the premises for ten years longer and deprive the Department of the power to cancel it.

At Hackensack, N. J. (Exhibit R–7), on January 1, 1901, a lease was executed for post-office premises at the rate of $600 per annum for a period of ten years. On March 15, 1902, this lease was canceled, although it had run but a year, and a new lease for the same premises, without any additional service, was executed for a term of ten years at $900 per annum, the "three-months' clause" being eliminated.

At Hagerstown, Md. (Exhibit R–8), a five-year lease was executed July 1, 1898, at $850 per annum, including equipment, light, and heat. In 1901 the postmaster desired some changes in the arrangement of the post-office that would cost about $400. The lessor declined to make the alterations unless the lease should be canceled and a new one made at a rental of $1,100 per annum. Assistant Superintendent Norris, who examined the premises, reported against the change in the lease; but in the face of this recommendation the lease was canceled a year and a half before it expired and a new one executed for a period of ten years at $1,100 per annum.

At Weehawken, N. J. (Exhibit R–9), on July 1, 1900, a lease wa executed for ten years at $500 per annum, including all equipment, heat, light, etc. On July 1, 1902, eight years before the lease expired, it was canceled and a new lease entered into for the same premises and the same equipment at an annual rental of $800.

At Fredonia, N. Y. (Exhibit R–10), on April 1, 1896, a lease was executed for a period of five years, including light, heat, furniture, fixtures, and a vault, for $500 per annum. On September 1, 1899, almost two years before the expiration of this lease, it was canceled and another lease executed for the same premises at an annual rental of $900 per annum. For this increased rental the Department received no service that was not required in the canceled lease.

At Hastings, Nebr., on May 1, 1897, a lease was entered into for post-office premises for a period of five years, including light, heat, vault, and equipment, at an annual rental of $700 per annum. In March, 1901, the lessor was notified that the lease would be canceled on June 30, almost a year before its expiration. Shortly after this a proposal was accepted for another building, no more desirable in any way for post-office premises, at an annual rental of $1,800, including equipment, heat, and light. A most vigorous protest was filed against this action of the Department by those interested in the canceled lease,

and the matter was referred to an inspector for investigation, who, on April 17, 1901, reported as follows:

Viewed from the standpoint usually assumed by the Post-Office Department in the treatment of lease cases, and eliminating all questions of personal interest, I am unable to conceive what possible representations could have been made to the Department in this case to result in the entertainment and acceptance of the proposition of Mr. Dietrich at the price named ($1,800 per annum). The proposition is exorbitant, and the location one that, if in competition with other propositions offering central locations at two-thirds the price asked, could not conscientiously be considered, except in the case of nominal rental for the same. * * * My best judgment in this case, after a careful study of the same, prompts me to make the following recommendations:

First. That the lease at present in force be allowed to continue until the time of expiration (May 1, 1902), even though it should become necessary (by reason of the serving of the notice that the same would be canceled June 30, 1901) to pay an additional rate of $200 per annum. * * *

Second. That when the proper time arrives for the consideration of a new lease for the premises for the use of the Post-Office Department at Hastings, Adams County, Nebr., that it be brought to the attention of the public through the customary advertisement and otherwise given the treatment usually accorded such cases.

The recommendations in this report were not followed, but the price of the new site was reduced to $1,300 per annum, with the proviso that the Department should pay the expense of moving and installing the equipment and provide heat and light. The office was moved at an expense to the Department of $746. After viewing the premises to determine whether the terms of the proposal had been complied with, the same inspector, who in the meantime had become an assistant superintendent of salaries and allowances, reported that:

The foundation for a respectable post-office in this instance is lacking, and as a business proposition from the standpoint of the Department the situation is far from being satisfactory to me. The question of the legality of a contract with a Senator-elect is a matter that should receive consideration in connection with this case.

This lease has never been executed by the Postmaster-General, though the office was moved and the Department has been paying for over two years this advanced rent of $600 per annum for less desirable premises, with an additional expense of $200 for heat and light.

At Piqua, Ohio, in February, 1898, five proposals for a five-year lease were submitted, all agreeing to furnish complete equipment, heat and light, at $1,000, $900, $860, $900, and $1,000, respectively. The proposition of William P. Orr at $1,000 was accepted and a lease executed. On December 21, 1899, after it had run less than two years, this lease was canceled and another executed at $1,370 per annum, without light, and an allowance of $200 was made for lighting the premises, making an expenditure of $1,570, the Department receiving no service additional to that required by the canceled lease.

At Dunkirk, N. Y., a five-year lease was executed March 1, 1898, at $450 per annum, including fixtures, with an additional allowance of $115 for light and fuel, making $565 in all. On February 21, 1899, the postmaster complained that the room was inadequate, and inclosed a proposition from T. P. Hefferman to erect a new building and furnish a room therein, with furniture and heat, at $1,250 per annum. On February 27 the postmaster was advised that the proposal of Hefferman could not be entertained, and that it was

not deemed advisable to disturb the existing lease of the present post-office premises, which lease was made about two years ago. You are further informed that the rental involved in Mr. Hefferman's proposition is altogether too high to receive favorable consideration by the Department.

On December 18, 1900, the postmaster again wrote that the room was inadequate, and stated that—

L. F. Stearns contemplated the construction of an office building and would like to use the first floor for a post-office.

The Stearns proposal was to furnish a room fully equipped with furniture, heat, and light for an annual rental of $1,500. The inspector who made the investigation, on January 5, 1901, reported:

I informed Mr. Stearns that I would submit his proposition to the Department. At the same time I told him that I did not believe the Department would pay that amount of money for rent of post-office premises at Dunkirk, N. Y., as the place was not large enough to warrant it.

On January 17 the postmaster was advised:

The rental demanded by Mr. Stearns is so much of an increase over the sum now allowed that it is impracticable to take favorable action in the matter at this time, and you are requested to confer with Mr. Stearns and secure, if possible, a reduction to at least $1,200, which is all the Department deems proper to allow.

Finally, after further correspondence (Exhibit R–5), on February 11 the Stearns proposition, which included a complete equipment of boxes, fixtures, furniture, etc., was accepted at $1,350; and on October 15, 1901, following, a lease for ten years was executed with the "three-months' clause" eliminated, and the office moved. On January 27, 1902, about three months from the date of execution of this lease, it was canceled and another executed at a rental of $1,500 per annum. And again on May 14, less than four months afterwards, this $1,500 lease was canceled and another one executed for a period of ten years, at a rental of $2,000 per annum, with the "three-months' clause" eliminated.

No additional service was provided for in any of the subsequent leases to that included in the original, at $1,350 per annum. Inspector Cochrane, of the New York division, in referring to this case, says (Exhibit R–21):

Mr. Stearns informed me that the first contract was made at $1,350 per annum, but stated that there had been an inside understanding with the Government that the rate would be advanced; and, further, that the allowance was accordingly made to $1,500 per annum, and later to the present rate of $2,000 per annum.

It will be observed that instead of using this authority given by Congress to make long-time leases to secure better buildings for less money, it has been used for the benefit of "grafters" who seek to pillage the public revenues. Why should a lease be made at all if it is to be canceled in a few months without cause? The most charitable conclusion that can be drawn from Beavers's action in canceling these leases is that by the lavish waste of the public money he sought to secure the good will of men prominent in political life.

INCREASING RENTAL OVER AMOUNT OF PROPOSAL.

As a rule, there is an active interest in every community in the location of the post-office, and numerous proposals are submitted by the property owners. After considering the reports of the inspectors and accepting one of the proposals Beavers, in making the lease, frequently increased the rental above that called for by the proposal. To illustrate:

At Anderson, S. C., additional room was desired for the post-office.

An investigation was made by an inspector, who forwarded a proposal for $550 per annum and recommended its acceptance. When the lease was executed, however, the amount was arbitrarily increased at the Department to $600 per annum.

At Appleton, Wis., a proposal was submitted to furnish premises for a period of five years from January 1, 1900, with complete equipment, heat, light, etc., for $1,100 per annum. After investigation this proposal was recommended by an inspector as second choice. It was accepted by the Department, but when the lease was executed it was made for a period of ten years at $1,350 per annum, with the "three-months' clause" eliminated.

At Lancaster, Ohio, on December 19, 1899, a proposal was submitted to lease a room in the city building for five years from April 1, 1900, with full equipment, heat, and light, at $500 per annum, which was accepted. But when the lease was executed the rental was fixed at $800 per annum. No additional service was secured for the Department other than that provided for in the $500 proposal.

At Lyons, N. Y. (Exhibit R–4), a proposal was submitted for premises, including equipment, light, and heat, at $600 per annum. When the lease was executed the rent was increased to $800 per annum, without any additional service than that provided for under the $600 proposal.

At Sidney, Ohio, on June 20, 1902, four proposals were submitted for premises with full equipment, light and heat furnished, at $874, $880, $900, and $1,000, respectively. The proposal at $880 was accepted. When the lease was executed, January 1, 1903, the rental was fixed at $1,200 per annum. This was done without readvertising or consulting anyone interested in the other proposals that were rejected.

At Plattsmouth, Nebr., the Department was paying $360 per annum rent and an additional allowance of $60 for fuel and light, making a total of $420. The owner of the building in which the office was located, on July 7, 1902, submitted the following proposal:

> In regard to the proposition of the rooms for post-office, I would state that the post-office now occupies two rooms. The intention in remodeling these rooms is to take out the partition and make one big room, which would be 39 by 46 feet, inside measurements. The new improvements, including fixtures, etc., and the remodeling of the room, as we expect to do it, would cost at least $1,500. At the present time, without any work being done on them at all, these rooms would rent for $60 per month—just what I ask for the post-office. As we have been unable to get a Government building here, we are desirous of having our post-office fixed up as conveniently as we can under the circumstances, and for that reason I am willing to expend this amount on the rooms if the Government will make a four-year lease.

The question was investigated by an assistant superintendent, and the owner, in consideration of a ten-year lease, submitted a proposal at $700 per annum, which the assistant superintendent recommended be accepted. When the lease was executed the rental was increased to $1,200 per annum, without any additional service than that provided for under the $700 proposal.

The foregoing are but samples to illustrate Beavers's methods of administration. The records indicate that many of these arbitrary increases in rent were made upon the recommendation of members of Congress. A list of over 40 cases is submitted (Exhibit R) where increase was made over the amount called for by the proposal accepted.

RENTALS INCREASED WITHOUT CHANGING LEASE.

Beavers would frequently increase the annual rentals without disturbing the lease or in any way changing its provisions. To illustrate:

At Ypsilanti, Mich., on July 18, 1898, the owner of the building where the office was located submitted a proposal for re-leasing the premises at $700 per annum, an increase of $50 over the former rental. On November 17, 1898, the proposal was accepted and a lease executed for ten years at that amount. On March 28, 1902, five years before the expiration of the lease, Beavers sent the following notice to the Auditor:

Referring to the lease of the post-office premises at Ypsilanti, Mich., on file in your office, I beg to inform you that it has been decided to increase the allowance for rent for the Ypsilanti post-office premises from $700 to $900 per annum, to take effect April 1, 1902.

This additional rent has been paid ever since, for which the Department has received no additional service.

On April 1, 1902, a lease for the premises occupied by Station B, Toledo, Ohio, was executed for a period of five years, at $500 per annum, to include equipment, heat, and light. On June 9 following the owner of the building wrote A. W. Machen and asked him to secure an increase in the rental to $800. This letter was indorsed as follows:

Respectfully referred to Mr. George W. Beavers, with the request that the same be given favorable consideration.

A. W. M., *General Superintendent.*

On June 26, 1902, Beavers wrote the postmaster as follows:

Referring to the matter of the lease of the premises occupied by Station B of the Toledo post-office, you are informed that it has been decided to increase the rental from $500 to $800 per annum from July 1, 1902, to extend during the balance of the term of the lease—i. e., until April 1, 1906.

And on the same date the following letter, initialed by Beavers, was sent to the Auditor:

I beg to inform you that it has been decided to increase the rental for the premises occupied by Station B, Toledo, Ohio, from $500 to $800 per annum, to include heat and light, effective July 1, 1902, and to continue during the balance of the term of the lease.

This information is submitted to be placed on file with the lease in your office.

After the property owners in a city have been invited to submit proposals for leasing premises for post-office purposes, and such proposals have been considered by the Department, a site selected, and lease executed in accordance with the provisions of such proposal no departmental officer should increase, either by direct or indirect method, the rental provided for in that lease without receiving an additional increase of service. It would be far better to reopen the case and again submit the proposition to the property holders for their consideration. The arbitrary increase of rentals by departmental officers because of the political influence of the lessor is a flagrant injustice to those whose bids are rejected. It enables the man with a political or personal "pull" to bid lower than others and then by intrigue secure increased compensation. Such a policy is not only grossly unjust to the property owners whose proposals are submitted in good faith, but opens wide the doors to official corruption and fraud.

ASSISTANT SUPERINTENDENTS.

In 1901, at Beavers's solicitation, the position of assistant superintendent of the salary and allowance division was created and a number of such officers appointed to work under his direction in the investigation of matters relating to leases and clerk-hire. This work had always been done by the regular force of inspectors who were under the direction of another bureau of the Department. Such an organization had always been thought wise, the one bureau in a measure serving as a check upon the other. The inspector investigated lease cases and reported the facts to the Department with his recommendation. These reports were then referred to the First Assistant Postmaster-General for his information in making the leases. If the inspectors discovered any irregularity in the leasing of premises, or failure of the lessor to fulfill his contract, he was required to report that fact to the Department. The inspectors, however, acted only in an advisory capacity—they reported the facts and made recommendations. The decision was with the First Assistant Postmaster-General. He could accept, modify, or reject the inspectors' recommendations. If a report was not satisfactory to the officers of the First Assistant Postmaster-General's bureau, a reinvestigation by another inspector would be requested, and in that way additional information was secured before the lease was executed.

Beavers's purpose in securing assistant superintendents was to get control of the investigation of lease and clerk-hire cases. The recommendations of the inspectors were not always in line with his wishes, and their reports sometimes made it embarrassing for him in carrying out his schemes. After these assistant superintendents were appointed some of them fell into Beavers's methods of doing business. To illustrate:

At Troy, N. Y. (Exhibit R–13), on April 20, 1902, a proposal was submitted to furnish a room for the Lansingburg Station for $500 per annum, which, upon Assistant Superintendent White's recommendation, was accepted. In a report dated January 6, 1903, White stated that while negotiating the lease it was intimated that $450 would be a satisfactory rate, but he says:

> It was evident to my mind at the time that the prospective lessors had a very indefinite idea what an equitable rate of rental would be, and I personally encouraged them to make it $500.

In this report, made six months after the proposed lease had been accepted, White further suggested that the rental be increased to $550 per annum, and the lease was executed at that rate.

At Penn Yan, N. Y. (Exhibit R–15), on October 1, 1902, upon the recommendation of White, a proposal was accepted to lease premises for ten years at $800 per annum. In March, 1903, White, in a report to Beavers, suggested that he did not think the lessor's contract was a very lucrative one, and that if he saw fit the rent might be increased to $850 or $900.

At Little Falls, N. Y., on January 28, 1902, a proposal was accepted for the lease of premises with full equipment, light and heat, for a period of ten years, at $1,250 per annum. In equipping the building the lessor states his expenses were $518 more than he had estimated (Exhibit R–16), and because of this additional expense Assistant Superintendent White in his report says that—

Under the circumstances now existing at Little Falls, N. Y., I am of the opinion that it would be no more than equitable to increase the rate of rental from $1,250 to $1,500 per annum, which amount I respectfully recommend as the rate of rental in the lease which is to be executed.

The recommendation was approved and the lease executed for ten years at $1,500 per annum. The lessor doubtless would be glad to expend $518 more on the same terms.

White told the inspectors that he received a request from Beavers by letter to recommend this increase in the rent (Exhibit R–16).

Other matters of a routine character have come to my attention during this investigation that reflect upon the efficiency of Assistant Superintendent White and others, which will be referred to the First Assistant Postmaster-General for his consideration.

CONTRACTS WITH CONGRESSMEN.

Section 3739 of the Revised Statutes provides:

No Member of or Delegate to Congress shall, directly or indirectly, himself, or by any other person in trust for him, or for his use, or benefit, or on his account, undertake, execute, hold, or enjoy, in whole or in part, any contract or agreement made or entered into in behalf of the United States by any officer or person authorized to make contracts on behalf of the United States.

The statutes further provide:

All contracts or agreements made in violation of this section shall be void.

Yet in the face of this statute, Beavers has made contracts with members of Congress for the rental of premises, either in their own names, the names of their agents, or some member of their families.

A careful investigation, however, does not show that the Government has been defrauded by the payment of excessive rentals to members of Congress either directly or indirectly. So that while the law has been openly violated, the Department has sustained no money loss. I recommend, however, that all leases where a member of Congress is a party be canceled and leases executed in conformity with the statutes.

There is no evidence to indicate that Beavers's reckless and high-handed proceedings in the matter of leases was the result of any general scheme of corruption or blackmail on his part. There may be individual cases where he received money, but evidence to that effect has not been secured. His purpose seems to have been to place members of Congress and influential politicians under personal obligations to him. In this he was very adroit. When a member of Congress receives a letter from a constituent stating that the Government is not paying him sufficient rent for his building, it is but natural that the Congressman should refer that letter to the Department, asking that the matter be given proper consideration, and at the same time write his constituent that he would "do what he could for him."

The executive officer is expected to do his duty in accordance with the law and the practice of the Department. Congressmen, as a rule, want their constituents to have what they are justly entitled to and no more. It is true that there are occasional exceptions to this rule, but happily such exceptions are few. But whatever may be the request of the Congressman, the executive officer has a plain duty which the member of Congress expects him to perform. Congressmen frequently ask executive officers to do things which they themselves would refuse to do if the responsibility of decision was upon them. The traditions of American politics afford many instances of this kind.

Beavers frequently complied with the requests of Congressmen in a lawless manner. He would then advise the Congressman that he had complied with his recommendation and also write the constituent in whose interests the Congressman's request had been made, that his rent or clerk-hire allowance, as the case might be, had been increased upon the recommendation of his member of Congress; to illustrate:

At Manhattan, Kans., on February 15, 1902, a lease was executed for post-office premises, including equipment, heat, and light, for a period of ten years at $600 per annum (Exhibit R–20). After the lease had run a year, the lessor concluded that he would like to have more rent for his premises, and he wrote his member of Congress to that effect. The Congressman took the matter up with the Department, and as a result the rent was increased to $850, without any change in the provisions of the lease. On March 7, 1903, the following was written the postmaster:

> Upon the recommendation of Hon. W. A. Calderhead, it has been decided to grant an additional allowance for rent of the premises occupied by the post-office at Manhattan in the sum of $250 per annum, effective March 1, 1903, this allowance being in addition to the sum authorized under the lease, viz, $600 per annum, including equipment, heat, light, etc., for a term of ten years from February 15, 1902. You are therefore authorized to pay rental at the rate of $850 per annum from March 1, 1903, until otherwise advised. The present lease will not be disturbed.

On the same date the Auditor for the Post-Office Department was advised:

> On account of increased service at the post-office at Manhattan, Kans., the expense to the lessor for additional furniture, fuel, light, etc., has been considerably increased. It has therefore been decided to grant an allowance of $850 per annum from March 1, 1903, to cover equipment, heat, light, etc., being an increase of $250 on the sum authorized in the lease on file in your office.

No additional service was received by the Department for this $250 increase in the rental. The letter to the auditor was initialed by Beavers and signed by the First Assistant Postmaster-General. The lease as signed by the Postmaster-General was not disturbed, yet by the act of a subordinate the expenditures under this contract were increased $2,250.

I do not offer any criticism against the Congressman. He did what members of Congress usually do in representing the interests of their constituents before the Department, and had a right to expect that the executive officer would do his duty in accordance with the interests of the public service.

The reckless administration of Beavers has caused a large increase in the amount of appropriations for rent for post-office premises. During the five years prior to July 1, 1898, the appropriation for rent, light, and heat increased from $1,359,149 to $1,600,000, or approximately $240,000, while for the five years from 1898 to 1903 it was increased from $1,600,000 to $2,350,000 per annum, an increase of $750,000, or $500,000 greater than for the preceding five years. A part of this increase doubtless is legitimate, being the result of a general advance in rental values, but much of it has been the result of maladministration.

Considering the many irregularities in connection with the leasing of premises, such as the canceling of leases before their expiration, the arbitrary increase of rentals without any equivalent increase in service, the binding of the Department for ten years to such leases by eliminating the "three-months' clause," and the voluntary advances of rentals

above the amount called for in proposals, I would respectfully recommend that all such cases be referred to inspectors for special investigation, in order that the Department, when the reports are received, may take such action as the interests of the service may require.

BRANDT AUTOMATIC CASHIERS.

The charges relating to the purchase of automatic cashiers were investigated by Inspectors Little and Oldfield, whose reports are submitted herewith as Exhibits S and T.

Prior to 1898 the large-sized post-offices were furnished with "coin trays." These were made with grooves of proper size to fit the various pieces of American coin, from 1 cent to $1. This rack could be placed on the counter near the stamp clerk, and was a convenience in enabling the clerk to make change rapidly. The prices of these coin trays were from $5 to $12, depending upon the size and construction. They appeared to be entirely satisfactory, as there is no evidence, so far as the records of the Department show, of requests on the part of postmasters for any other change-making device.

During the summer of 1898, a number of the Brandt-Dent automatic cashiers were placed in 15 post-offices for the purpose of testing their desirability as a change-making device. The mechanism of this machine is such that by depressing the appropriate key the exact amount of change indicated by such key will be given out. There is another form known as the "computer," which, by touching the key, will give the required amount of change and also register the amount of the purchase. The price of these machines in the open market was $125. They were manufactured by The Edward J. Brandt-Dent Company, of Watertown, Wis., of which Edward J. Brandt was president.

At this time Winfield S. Strawn, of Canton, Ohio, was the superintendent of agencies, with an office in New York City. In November, 1898, George F. Miller, also of Canton, Ohio, was designated as the Washington agent. His business was to secure the adoption of the cashier in the postal service.

Postmasters at the offices where the tests were being made were directed by First Assistant Postmaster-General Heath to submit reports on the merits of the machine after it had been used a sufficient time to warrant an opinion.

The postmaster at Chicago on May 31, 1899, reported (Exhibit T–1) that of the four machines sent to that office only one could be used; that the clerks outside of the cashier's office did not want them, and that he did not like to force their use against the wishes of the clerks. The postmaster at Boston (Exhibit T–2) reported favorably upon the machine. The postmaster at Philadelphia (Exhibit T–3) said that he could use two, but that the time saved would not enable him to reduce his office force. The postmaster at Washington (Exhibit T–5) transmitted, without comment, the statements of his subordinates who had used them, and no reports seem to have been received from the other offices.

The Boston postmaster was the only one of the fifteen to whom the machines were sent who recommended their adoption. The three sent to Chicago that were not wanted were ordered shipped by registered mail to San Francisco, though there is no evidence that the postmaster at that city desired them.

Judge George E. Baldwin, of Canton, Ohio, is the father-in-law of Miller, the Washington agent of the company, and was active in his efforts to secure the adoption of these machines by the Department. The methods employed to accomplish this result are clearly set forth by the correspondence between Brandt, president of the company, and Strawn and Miller, his agents (Exhibit S). On February 20, 1899, Miller wrote Brandt as follows:

I met Mr. Beavers on the street yesterday, and he was very pleasant indeed; asked me if you were still in the city, and said upon leaving that he would like very much to do everything he could toward the adoption of the cashier in the Post-Office Department, and also said that he understood General Heath had arranged a plan with Judge Baldwin for carrying this matter into effect, so that I am satisfied that we have the assurance and friendship of both parties—General Heath and Mr. Beavers—and all that is necessary is to cultivate that friendship, if not by kind words, by dollars and cents, and I think the latter will be the most positive. However, the lines we have out now will result in a change of programme which means our ultimate success.

Six weeks later Strawn wrote Brandt from New York that Miller had left that day for Washington, having—

succeeded in a plan to effectively reach Mr. Beavers, through a Brooklyn Congressman.

And on March 30, the following day, Miller wrote Brandt from Washington, as follows:

Mr. Strawn and myself interviewed Congressman Driggs yesterday in Brooklyn. * * * Matters are moving very satisfactorily in all branches of Government supplies.

On April 6, Miller, after a conference with his father-in-law, Judge Baldwin, at Canton, Ohio, wrote Strawn as follows:

Mr. Baldwin has been busy in court, and I have not discussed as yet fully all matters in regard to Government supplies. He would not advise any action of an arbitrary character at this time, but would request that we allow matters to proceed on the lines indicated, and if General Heath fails to show his hand the means are in our possession to make him do so. He does not even advise writing anything, but giving them a full opportunity of testing their promise, and this failing, another action will be brought through Postmaster-General Smith that will mean success. He also says to find out, if possible, exactly what this man Beavers wants to insure our success in that Department, in the way of dollars and cents, but not to give it to him unless forced to do so, and when we do, if at all, he desires to be present in person himself and plan the agreement, but says it is not even time to think of this move.

Miller, after his conference with Baldwin, the result of which is set forth in the above letter, returned to Washington, and on April 10 wrote Brandt:

Arrived from Ohio this morning and am very much pleased with success of my trip. Judge Baldwin has positive assurance of a nature that I can not disclose for fear of the letter miscarrying, but sufficient to say that time will surely bring a successful result in the Post-Office Department. I not only have the assurance through him, but I received a telegram and a letter this morning from Congressman Driggs, of Brooklyn, N. Y., whom I wrote you about, and who came to Washington last Friday and returned on account of my absence, and who desires my presence in New York to-morrow morning at 10 o'clock.

Miller visited New York, as indicated above, and on April 25 again wrote Brandt:

I returned from New York, at which place I have been for the past ten days working on a proposition for a general supply in the Post-Office Department of the United States, and am glad to say that I have successfully formulated a plan which has been approved officially, and of which Mr. Strawn has investigated the outline of but is not in possession of the details, nor will he be or anyone else until a satisfactory arrangement can be made that will meet your approval before action can be taken.

I can not discuss the details, as they are sacred, and owing to the prominence of the parties interested will say nothing at this time in regard to the same.

After returning to Washington, Miller seems to have had a conference with J. H. Crew, a clerk in the Post-Office Department, who is a relative of Strawn's. On April 27 he wrote Strawn as follows:

I also told Crew I had made a deal, but did not say to him any of the points of interest. I think in a job of this kind the fewer who know it the better, and no fear of me giving anything away which is sacred to me as this is.

The time now appeared to be ripe for closing the matter, and Strawn and Brandt both seemed to think that Judge Baldwin's presence was desirable; so, on May 1, Strawn wrote Baldwin as follows:

I understand you are aware of Mr. Brandt being present here in the East, through advice of Mr. Miller at Washington. He arrived on Friday at Washington, where Mr. Miller and I met him, and we spent Friday and Saturday discussing the plan of organizing a sales department and the mode of procedure of closing an important supply contract with the United States Post-Office Department, which Mr. Miller has in appearance for finally closing now within a few days; and in discussing the details of above matter Mr. Brandt expressed himself that he would be much pleased to have your presence and conference in the matter, and believed that Mr. Miller would feel and be better satisfied.

In response to this invitation Baldwin came to Washington and held a conference with the parties interested, and as a result First Assistant Postmaster-General Heath, in a letter dated May 9, notified Miller that—

It has been decided to arrange for the payment for the Brandt automatic cashiers already installed some time during the current month. * * * The Department has also decided to purchase 250 of your machines for installation at first-class post-offices during the forthcoming fiscal year.

On May 19 Miller acknowledged Heath's requisition as follows:

As to payment for cashiers now placed, for which bills have been rendered, payment this month is acceptable and will be appreciated. Your valued requisition for 250 automatic cashiers during the forthcoming fiscal year will be complied with. * * * We will supply cashiers at the rate of 50 each month, delivery beginning with July, 1899, * * * at $150 per cashier.

It therefore appears that after these extensive negotiations a contract was finally made by the First Assistant Postmaster-General for the acceptance of the 39 machines already placed in offices on trial, and for 250 additional machines at $150 each. With the exception of a slight change in the base these machines were exactly the same as those that were sold in the open market for $125.

It is very apparent from the foregoing correspondence that Miller, Strawn, Baldwin, and Brandt did not depend upon the merits of their device or the necessity for its use in the postal service to secure its introduction.

At the time this order for 250 machines was given there was not a request on file from postmasters for such machines, and a majority of the 39 in use probably could have been withdrawn and returned to the factory without protest from a single postmaster.

A systematic effort was made to induce postmasters to make requisition for these machines in order to dispose of the 250 ordered. Miller, the representative of the company, visited a number of the larger cities and informed the postmasters that they could get these machines from the Department if they would make requisition for them. But few requisitions came in, as the subject did not interest the postmasters. Beavers then prepared a letter, which was signed by the First

Assistant Postmaster-General and sent to postmasters at the larger offices, in substance as follows:

I have to advise you that one Brandt automatic cashier, of the Edward J. Brandt-Dent Company, of Watertown, Wis., at $150, has been ordered for your office. It has been satisfactorily demonstrated to this Department that the automatic cashiers are labor savers and absolutely correct and reliable in connection with the sale of stamp supplies and money-order transactions. No bills for this machine are to be rendered at this time, and payment therefore must not be made until specially authorized by this office.

After the machine had been in the office for some time another letter would be forwarded to the postmaster authorizing him to pay for it. At some of the larger offices the postmasters objected to paying for them, stating that their miscellaneous allowance would not admit of such expenditure. But they were informed that their allowance would be increased the amount necessary to pay the bill. In some instances the postmasters were not prompt in paying for the machine, hesitating to spend the money for what they considered an unnecessary device. In such instances they were instructed by Beavers to "pay the bills promptly."

Miller not only visited the large offices, but he wrote letters to practically all of the postmasters at first and second class offices in the United States, advising them that if they would make requisition on the Department for a Brandt automatic cashier it would be furnished. But regardless of these industrious efforts to induce postmasters to ask for these expensive change-making devices, the requisitions came in slowly, and finally they were sent out in large numbers without requisition.

After the 250 had been disposed of, additional orders were given until 527 machines had been purchased by the Department, 217 of which were shipped to postmasters without requisition. Postmasters did not always readily acquiesce in the use of this device. It will be remembered that the postmaster at Chicago, in his report in regard to the four machines sent him for testing, stated that he could use but one. This report by the postmaster was made on May 31, 1899. On July 25, less than two months later, nine additional machines were shipped to Chicago for use in that office, and the postmaster was directed to pay $150 each for them. Of the ten supplied in this manner only three are in use, the others being stored in the vault. A cashier was sent to the Keokuk, Iowa, post-office, and on February 7, 1900, the postmaster wrote as follows:

I do not consider this cashier of any value whatever. It is not correct, and is not labor saving; in fact, we do not use it. I give you this information for the reason that I do not think the Department should adopt and buy these cashiers.

Again on June 21 he wrote:

The machine works satisfactorily, but our clerks prefer the other mode of making change, and it is my opinion that this cashier is an unnecessary expense.

And on June 28, in answer to this letter, Beavers, as Acting First Assistant Postmaster-General, wrote him as follows:

Relative to the automatic cashier in your office, you are directed to put the same into active use, as it is the desire of the Department to have a uniform system in the matter of handling cash in the larger post-offices.

It is difficult to understand what interest the Department could have in a systematic method of making change in the larger offices. Postmasters and the clerks under them, or their bondsmen, are held

responsible for money due the Government, and no more ridiculous suggestion could have been made than that the Department was interested in the method of making change by the postmaster or his clerks.

These friendly suggestions from the postmaster at Keokuk were resented, and a request from him for an allowance of $9 to purchase some miscellaneous supplies needed in his office was unceremoniously declined, though he was ordered to pay $150 for the cashier.

A short time after this investigation began a letter was directed to all the postmasters at the offices where automatic cashiers were in use and inquiry made as to their utility. The following are samples of the replies received (Exhibit T):

San Francisco, Cal.: In storeroom; not considered of practical value.
Savannah, Ga.: Not adapted for use in sale of stamps.
Moline, Ill.: Can not use to any advantage.
Evansville, Ind.: Not adapted to business in this office.
Fort Wayne, Ind.: Considered slow and impracticable.
Indianapolis, Ind.: Use not considered advantageous.
Clinton, Iowa: Can not use to good advantage.
Newport, Ky.: Clerks do not like it.
Portland, Me.: Not adapted to work of this office.
Hagerstown, Md.: Unnecessary.
Holyoke, Mass.: Not reliable.
New Bedford, Mass.: Don't like it.
Grand Rapids, Mich.: Unsatisfactory after test.
Kalamazoo, Mich.: Refused to accept it. Not wanted. Sent to postmaster, Oak Park, Ill.
Kansas City, Mo.: Have seven machines, four not needed.
Asbury Park, N. J.: Not needed.
Jersey City, N. J.: Can not use to advantage.
Albany, N. Y.: Reliability doubted.
Schenectady, N. Y.: Clerks will not use it.
Syracuse, N. Y.: Too much time lost in refilling.
Troy, N. Y.: Clerks preferred not to use it.
Watertown, N. Y.: Have no use for it.
Allegheny, Pa.: Can make change quicker without it.
Sioux Falls, S. Dak.: Impracticable for money-order business.
Chattanooga, Tenn.: Unsatisfactory.
Memphis, Tenn.: Clerks can do better without it.
Austin, Tex.: Employees can not use it.
Richmond, Va.: Unsatisfactory.
Oshkosh, Wis.: Used one month; impracticable.

Nine of these machines were sent to Baltimore; 4 of them are in use, the others stored. Eighteen were shipped to Philadelphia, of which only 11 are used. Twenty were forwarded to Boston, of which 2 are now in use and the other 18 stored in the basement of the post-office. Twenty were sent to New York, only 1 of which is used, the other 19 being an encumbrance to the office.

Of the 527 machines purchased, 173 are idle; many of these have never been taken from the cases in which they were shipped. The remainder are being used to a greater or less extent. In many of the offices where the machine was of no particular benefit it was ordered returned to the factory, and another machine, alleged to be an improvement on the old one, would be forwarded and the postmaster ordered to pay $25 additional to the company for the exchange, though there was practically no difference in the machines. Seventy-four such exchanges were made. The aggregate amount of money paid to the Brandt-Dent Company for these useless cashiers was $74,275.

A summary of the foregoing demonstrates that the machine was unnecessary; that it was not so desirable or convenient for postal pur-

poses as the "coin tray," which it was to displace, though it cost from twelve to thirty times as much; that the Department contracted for 250 of them and paid $25 each more than they were selling for singly in the open market, and continued to pay this increased price until 527 had been ordered.

Eliminating from consideration all indications of fraud, and passing upon the case wholly as a question of administrative judgment, it appears to me that this transaction would have justified the summary removal from office of First Assistant Postmaster-General Heath and George W. Beavers.

But the element of fraud can not be eliminated. Men of ordinary intelligence rarely waste the public revenues in such a manner without a personal motive. A bribe of $12,500 was paid to secure this order for 250 machines. It appears that the company was not willing to pay this amount outright and risk having the order canceled or annulled because of some administrative accident or possible exposure; so that Miller, Strawn, Driggs, and Baldwin spent weeks in devising a scheme by which the company would not be required to pay the bribe until the "goods were delivered," and at the same time secure to the bribetakers their share of the spoils. The scheme finally agreed upon is indicated by a resolution of the board of directors of the company, passed on May 25, 1899, which provides (Exhibit S):

That we will proceed to manufacture and deliver the machines as proposed in said letter, and that in order to make a partial payment to apply on the commissions due George F. Miller and W. S. Strawn, on this sale, the president and secretary are hereby authorized to sign and deliver a note for $12,500 in favor of George F. Miller, or order, and charge that amount to the accounts of George F. Miller and W. S. Strawn as their interest in the commissions may appear, it being mutually understood and agreed that as fast as settlements are received from the United States Post-Office Department for the machines delivered on this order we will pay $50 cash for each machine settled for. Such payments to be applied and indorsed toward reducing the obligations of the company under the above authorized note, and that no obligation accrues until cashiers are paid for at $150 each.

A copy of the note referred to above was attached to the resolution. It reads as follows:

WATERTOWN, WIS., *May 25, 1899.*

For value received we promise to pay George F. Miller, or order, $12,500, without interest, on receipt of proceeds of sale by The Edward J. Brandt-Dent Company of 250 or more automatic cashiers, sold May 19, 1899, to the United States Post-Office Department.

The EDWARD J. BRANDT-DENT COMPANY,
EDWARD J. BRANDT, *President.*
ROBERT M. DENT, *Secretary.*

This note was duly executed and delivered to Miller, and by Miller assigned to Congressman E. H. Driggs, of Brooklyn, heretofore referred to in the correspondence between Brandt, Strawn, and Miller.

The commission allowed Miller and Strawn on ordinary commercial business was 45 per cent; but on this order of 250 machines for the Post-Office Department the board of directors, on May 27, 1899, increased that commission to 66⅔ per cent, by the following resolution (Exhibit S):

Resolved, That instead of the commission allowed that may be due W. S. Strawn and George F. Miller on order from United States Post-Office Department, dated May 19, 1899, for 250 special automatic cashiers, at $150 each, E. J. Brandt, president, is hereby authorized to make a special agreement for the commission on the above-mentioned order, whereby this company will allow Messrs. Miller and Strawn a commission of 66⅔ per cent on 250 cashiers, at $150 each, sold to United States Post-Office Department.

Sixty-six and two-thirds per cent of $150 is $100, which represents the commission that Miller and Strawn received on each of these 250 machines. This $100 was divided with Congressman E. H. Driggs, of Brooklyn. The $150, therefore, paid by the Department was divided as follows: Driggs, $50; Strawn and Miller, $50; company, $50. The cost of manufacturing the machine was, as nearly as can be ascertained, between $17 and $25, leaving a very good profit for the company after commissions were deducted. Driggs received $50 on each machine when paid for by the Department, which payments he credited upon the note for $12,500. Sixty-nine payments were made, mostly by draft, the last payment being November 5, 1900, when the note was canceled and returned to Miller, and by him delivered to Brandt, by whom it was destroyed.

Driggs admits that he received the $12,500, but denies that he ever paid any part of it to Beavers or to any other post-office official. The inspectors, however, have conclusive proof that he did pay a part of this money to Beavers, the evidence of such payments now being in the hands of the United States district attorney for the eastern district of New York. Heath states (Exhibit X) that he remembers Judge Baldwin spoke to him of the cashiers, but has no recollection as to price or the details of the matter.

Driggs, Beavers, and Miller have been indicted by the Federal grand jury in the city of Brooklyn, N. Y. (Exhibits T-10, T-11, and T-12).

There is no definite evidence that Heath received any part of the money paid for these machines.

During the investigation of this case, Inspectors Little and Oldfield secured evidence indicating that Ernest E. Baldwin, assistant United States District attorney for the southern district of New York, had knowledge of the transactions between this company and officers of the Department. He was the attorney for the company in a suit then pending in the southern district of New York, and had in his possession the original $12,500 note.

The inspectors were given a written order by the president and treasurer of the company directing the firm of Boothby & Baldwin, of which Ernest E. Baldwin is a member, to give them access to any papers in their possession bearing upon the subject. When the inspectors presented this order to Baldwin he refused to recognize it and became very angry, and with violent and profane language ordered them from his office (Exhibit T).

It appears, therefore, that Ernest E. Baldwin, assistant district attorney, had knowledge of a fraud against the Government; that he was asked by officers of this Department for such information, and that their request was refused, even after they had presented him with a written order from his clients asking him to give them the information, and that his refusal was made in a most insulting and abusive manner. A statement of the facts in this case has been referred to the honorable Attorney-General of the United States for his consideration.

There is reason to believe that Judge George E. Baldwin knows as much about this fraud as any other party, not even excepting Beavers and Driggs. He is at present consul at Nuremberg, Germany, and has not been in this country at any time since this investigation began. The inspectors, therefore, have not had an opportunity to interrogate him; but I respectfully recommend that all the facts relating to his connection with this case be referred to the honorable Secretary of State for his consideration.

ELLIOTT & HATCH BOOK TYPEWRITERS.

The Elliott & Hatch book typewriter is a machine invented by Crawford Elliott, of Springfield, Ill., and Walter P. Hatch, of Stamford, Conn., and was designed primarily to write in record books. With the ordinary typewriter the paper moves as the writing progresses, but with this the paper or book remains stationary while the machine itself moves with each depression of the key. The inventors interested ex-Senator J. D. Cameron, of Pennsylvania, and Grant B. Schley, of New York, in their invention. A company was organized to manufacture and sell the machine, with Cameron as president and Hatch as general manager and treasurer.

H. J. Gensler, one of the official stenographers of the United States Senate, formerly secretary to Senator Cameron, was, in August, 1897, given the agency for Maryland, Virginia, and the District of Columbia. He sought to introduce this typewriter into the postal service, and induced James P. Willett, postmaster at Washington, D. C., to request First Assistant Postmaster-General Perry S. Heath to make an allowance of $175 for the purchase of one of the machines to be used in compiling a new city directory for the Washington post-office. Willett made this request on January 17, 1898, and on January 19 he was advised by the Salary and Allowance Division that owing to the limited appropriation available for the purchase of typewriting machines his request could not be considered; but Gensler was not a man easily rebuffed. On January 22—three days after the First Assistant Postmaster-General had refused the allowance to the Washington postmaster—Gensler wrote W. P. Hatch, general manager of the company at New York, saying:

> The postmaster of this city, Mr. Willett, made a requisition on the chief clerk of the Post-Office Department the other day for a machine which he wants to use for making a directory * * * and the chief clerk promptly rejected the requisition on account of the price of the machine. Now I have got to work on that chief clerk.

Gensler at that time did not understand the organization of the Department. The request was not turned down by the chief clerk of the Department, but by Beavers; chief of the salary and allowance division. Gensler made good his word, however, for on February 2, eleven days after he had written Hatch, Postmaster Willett renewed his request for $175 to purchase an Elliott & Hatch book typewriter, simply saying that he desired one to use in the office, and on the same day the allowance was made.

Not only did Gensler succeed in having permission granted the postmaster at Washington to purchase this one machine, but in less than two months letters initialed by Beavers and signed by the Acting First Assistant Postmaster-General were addressed to the postmasters at Baltimore, Boston, Brooklyn, Cincinnati, Louisville, St. Paul, St. Louis, and Washington, informing them that a certain number of Elliott & Hatch book-typewriters for use in the preparation of money-order statements would be forwarded to them in a few days. They were instructed to give these machines a thorough test and report the results to the office of the First Assistant Postmaster-General. On March 30, the day after these letters were mailed, Gensler was ordered, for the purpose of testing, to send the

Postmaster at—

Boston, Mass	4 machines.
St. Louis, Mo	3 machines.
Brooklyn, N. Y	3 machines.
Cincinnati, Ohio	2 machines.
Baltimore, Md	3 machines.
Washington, D. C	3 machines.
St. Paul, Minn	1 machine.
Louisville, Ky	1 machine.

Twenty machines were thus sent out. There were no favorable recommendations received from any of these offices. W. Scott Towers, superintendent of Station C, of the Washington post-office, however, gave a favorable report. In a letter dated May 24, 1898 (Exhibit U–29), Towers said:

My conclusions after witnessing their work are as follows: Less time and less work, a cleaner and clearer copy, 60 entries on one side of a sheet decreasing the bulk of a statement 50 per centum, making all statements uniform for auditing purposes, as against the irregularity and individuality of handwriting, and easy to learn.

For the above reasons I recommend the use of the typewriter in all post-offices doing a money-order business.

This appears to be the only letter of approval that had been received at the time payment for the 17 machines was ordered.

On July 6, 10 other machines were sent to various post-offices throughout the country, for testing. Up to that date 31 machines had been installed, without requisition, except one from the postmaster at Washington. Gensler then began a systematic effort to secure testimonials from postmasters where the machines had been installed. A number of such testimonials were given, though postmasters in so doing violated the following regulation of the Department that has been published annually for the last ten years:

No postmaster or other postal officer or employee is permitted, without special authority from the Postmaster-General, to give any indorsement, recommendation, or other testimonial, in his official capacity, to any private enterprise or business having any connection with the postal service or with postal affairs, or that appeals in any way for support to other postal employees.

Ten postmasters furnished the company with testimonials, facsimiles of which were printed as advertisements (Exhibit U–5). In his efforts to induce postmasters to recommend his machine Gensler was fertile in resources, as the following correspondence indicates. On August 23, 1898, he wrote Hatch:

Referring to your letter of the 16th instant, in which you say you have sent post-office machines to Montgomery and Mobile, I beg to say that I have written to my friend here in regard to getting favorable reports from these post-offices and herewith inclose a copy of a letter which he has written to the postmaster at Montgomery, which is a very breezy letter. It shows how close a friend Judge Buckley is to my friend.

Yours, truly,

H. J. GENSLER.

W. P. HATCH, Esq., *New York, N. Y.*

The "breezy" letter referred to can not be reproduced, but the expected recommendation followed. After discussing the inability of some clerks to use the machine and referring to the skill of a young lady typewriter just appointed to his office, the postmaster says:

To her patience, industry, and skill the machine gave up its hidden and secret merits, and now we would not be without it.

Every order paid, every order issued, every word and figure of the weekly money-order statement appears in clear, plain typewriting in the bound press copy book

made by the carbon process, and is as much superior to any press copy that can be made as a canceling stamp machine is to a hand stamp. The utility clerk of the office does this work. He is allowed but three hours a day to do it in, and the average daily transactions is 180. The record thus made like printing is clear, permanent, and easy of reference, and a credit to the management and reputation of the money-order system of the Post-Office Department.

The recommendation of the postmaster at Mobile, however, and the manner by which it was secured is still more interesting. On November 11, 1898, the postmaster wrote as follows:

It gives me very great pleasure to report favorably upon the merits of the book typewriter recently placed by you in this office under the direction of the honorable Postmaster-General, and I would not be without one for any consideration.

For all writing that may be done by pen or press, and alike on the heaviest bound records, single letter sheets, or by the aid of carbon interleaves a dozen duplicates at a time, its work is clear and uniform, alignment perfect, ink apparently indelible, touch light, and movement smooth.

In the filling out of the large money-order and other official blanks involving tabulation, in which it is mainly used in this office, it is invaluable, and through the aid of the newly attached jumping device, accuracy is so assured that it is almost impossible to set down the wrong line of words or figures in the wrong column. Besides, the machine writes just the same every day in the year, perfectly and neatly, never getting the trembles, and putting about a third more writing on each sheet.

Your Mr. Gensler, jr., has just visited Mobile to look after and explain the machine. But while always delighted to see him on his own and your account, his coming was unnecessary, for, although when first received the machine seemed beyond all understanding, so different was it from other makes, our office force readily mastered all its details and capabilities unaided, your shipping office having by oversight omitted to inclose any instructions.

Wishing you unbounded success, and that the introduction of the typewriter may grow apace with the grandly glorious expansion of our country that will presently make our beautiful "City of the Gulf" the foremost coal and iron shipping port of the Union, and that you will sell one to all my official correspondents, and with assurances of my personal regards, I remain,

Yours, truly, P. D. BARKER, *Postmaster.*

One would think that this enthusiastic recommendation was a spontaneous outburst of delight on the part of the postmaster, as he witnessed the beautiful mechanism of this wonderful machine. But not so; the letter was written in Gensler's office and sent to the postmaster, to be by him transcribed and signed. Upon the receipt of this letter Gensler wrote Hatch, November 14 (Exhibit U):

I herewith inclose a copy of my letter of commendation just received from the postmaster at Mobile. He inadvertently addressed it to Captain Patrick instead of to me. If you want to publish it you can strike his name out and insert the company's. *The original letter was written by Captain Patrick here* and sent to Mr. Barker with the request that *he have it written on our typewriter* on his post-office paper and signed by him, which he did.

W. P. HATCH, Esq.,
New York, N. Y.

P. S.—I sent the letter to you under another cover by this mail. The statement about the machine not requiring an *instructor originated* in Patrick's fertile brain.

All the postmasters who gave these testimonials in violation of the Postmaster-General's order have been called on to explain why they did so.

All postmasters did not, however, manifest the same enthusiasm in regard to the merits of the typewriter as did the postmasters at Montgomery and Mobile. On January 24, 1899, the postmaster at Brooklyn, N. Y., to whom three machines had been sent to be tested, wrote the First Assistant Postmaster-General as follows:

Referring to your letter of March 29, 1898, initials "A. W.," and mine of June 8, 1898, in response thereto, relative to the work performed by the Elliott & Hatch book

typewriters placed in this office on trial, I beg to advise you that the three machines on which report was made were replaced shortly thereafter by three other machines, which the manufacturers claimed to be an improvement on the first ones. They were given a thorough trial, but found to be not adapted to the work in the money-order department of this office. They are taking up valuable space, and I respectfully request that the manufacturers be instructed to remove the same.

On January 22, 1900, the postmaster at Chicago, in reporting upon the merits of the machines, said (Exhibit U–22):

The machines were tested in the money-order division for six weeks, and though every opportunity was afforded the operators the result is disappointing. The average time required at this office for a clerk to write a single statement sheet is fifty minutes. In using the machines none of the clerks has been able to write a sheet in less than two hours. The expert operators furnished by the Elliott & Hatch Company after three weeks' practice succeeded in completing a sheet in one hour and fourteen minutes. This was on an occasion when a trial of speed took place between an operator on the machine and a clerk with pen in hand. The time of the clerk during the trial was thirty-eight minutes. Should the money-order division be required to prepare all its statements on the book typewriter the force in the division would have to be increased to the extent of the loss of time brought about by the use of the machine. I am not prepared to recommend additional clerks for this purpose, more especially as the statements prepared by hand have always been accepted as satisfactory by the Department.

And even Barker, the postmaster of Mobile, changes his opinion of the machine (Exhibit U–31). Early in 1900 he complained to the company that it was continually out of repair, and in July of the same year he asked the Department to have it repaired. December 29, 1900, he asked for permission to test a Remington, with a view of securing one to replace the Elliott & Hatch. This request was declined. Again, in January, 1901, he complained that the machine was badly in need of repairs. On April 20, 1901, he was directed by the First Assistant Postmaster-General to crate and ship the Elliott & Hatch book typewriter to the factory at Harrisburg, Pa., and was advised that—

The said machine will be thoroughly overhauled and returned to your office, and you will be advised later relative to payment for repairs.

In response to this letter the postmaster, on April 29, wrote:

As per instructions from you, the above typewriter, No. 5292, has been sent to Harrisburg, Pa., for repairs. It is respectfully set forth that the return of this machine to this office is not desired, as from its complicated mechanism it is constantly liable to get out of order, and it takes twice as long to do the work by the typewriter as it does by hand, and the clerks in charge of the money-order division of this office much prefer the hand work to being constantly worried trying to make the machine do good work. There is always something to adjust and look after every time it is used; the shifting of the types and moving from column to column being especially hard on the adjustment, which is being constantly thrown out of gear and racked. After two years' trial of it I am not at all pleased with it, and would rather not have it sent back.

The work done on these typewriters seemed to have been of such an unsatisfactory character that M. M. Holland, chief of the inspecting division of the Auditor's office, and the clerks who handled the money-order statements of postmasters, formally protested against the use of this machine, declaring that the statements prepared with it were difficult to check and required much more time to verify than statements that came in from offices where the typewriter was not used. Holland, on April 4, 1899, transmitted the statements of these clerks (Exhibit U–6) to the acting Auditor, with the following letter:

The inclosed letters are submitted for your information and with a view of having the matter called to the attention of the Post-Office Department at the earliest prac-

ticable time to prevent the further outlay of money for the purchase of more typewriters for use of postmasters at offices of the first and second classes.

In addition to the complaints contained in the inclosures many of the inspectors have called my attention to the same matter and expressed the opinion that examination of work done on the machine is greatly retarded.

The consensus of opinion is that the statements prepared with pen and ink are preferable.

This letter with the statements of the clerks was transmitted to the First Assistant Postmaster-General by A. L. Lawshe, acting auditor, on April 5, 1899, with the following comment (Exhibit U–6):

Much complaint is made by clerks of the inspecting division of this office that money-order statements from post-offices using book typewriters are very imperfectly prepared, thereby causing much trouble and seriously retarding their work.

The consensus of opinion is that unless postmasters and clerks exercise greater care in the preparation of statements the use of the book typewriters should be discontinued.

Herewith I submit for your consideration, and such action as you may deem advisable, a letter of the chief of the inspecting division, with attached statements by clerks employed on this particular class of work.

One would naturally think that the above letters would have retarded the sale of the machines and dampened the ardor of Gensler. But not so. He secured a letter from the late Senator Davis, of Minnesota, to Auditor Castle, presented it to him personally, and as a result his efforts secured the following recommendation for the machine:

TREASURY DEPARTMENT,
OFFICE OF AUDITOR FOR THE POST-OFFICE DEPARTMENT,
Washington, D. C., June 8, 1899.

Hon. PERRY S. HEATH,
First Assistant Postmaster-General, Washington, D. C.

SIR: I take pleasure in saying that the money-order statements turned in to this office, which are printed and tabulated by the Elliott & Hatch book typewriter, greatly facilitate the work of auditing, as the typewriting is clear, distinct, and uniform and easy to decipher. It is also notable that by the use of this machine the bulk of the reports is largely decreased. Probably not one-fourth in number of the sheets are now required for the same work as when written by a pen.

I believe the further employment of this machine for making out money-order statements in all large post-offices will greatly benefit the public service for the reasons above stated.

Very respectfully, yours, HENRY A. CASTLE, *Auditor.*

Auditor Castle states (Exhibit U–6) that he never saw the letters of Lawshe, Holland, and the clerks of the inspecting division; that before he wrote the letter requested by Gensler he inquired of some of the clerks in his office as to the merits of the machine; that these clerks made to him verbally a favorable report, and upon that information he wrote the above recommendation.

Castle's letter was printed in facsimile and used in the advertising literature of the company, while the protest of his clerks quietly slept in the files of the First Assistant Postmaster-General's office until brought to light by this investigation.

About the time that Gensler began to secure testimonials he also started a vigorous campaign to induce postmasters to make requisition for the machines. He apparently had no difficulty in having the Department furnish the machines at his price when request was made by postmasters. All the political pressure that he could command was brought to bear upon these officials, as will appear from the following letters:

On September 23, 1898, he wrote Hatch as follows (Eylar referred to below was an officer of the company):

I have Mr. Eylar's letter of the 22d concerning the No. 5 machine which was delivered to the postmaster at Allentown, Pa., who only wants to pay $175 for same. He does not "cut any ice." * * * You will notice from the copy of the letter received by me this morning from the Post-Office Department, sent you under another cover, that the postmaster has been authorized to pay $200 for that machine, and you can bet that he will pay it p. d. q. or he will be hauled up with a jerk.

Tell your Philadelphia manager not to lose any sleep over Mr. Allentown postmaster, but to hurry up and send in an order from the Easton postmaster, from whom he said some time ago he expected to get a request for a machine. * * * Please send me a new lot of post-office requests. I am hungry for them. Time hangs heavy on my hands and I want something to do.

On September 27 he again wrote Hatch as follows:

I inclose another from the Post-Office Department. This is the result of my letter to Hon. William A. Stone, the next governor of Pennsylvania. We ought to have 100 orders by the 1st of January if you could only get your people to whoop things up a little. I am given to understand that I shall probably get the order for the five or six machines for the New York City post-office to-day or to-morrow.

On September 30 he again wrote Hatch:

I herewith inclose a letter from the postmaster at Titusville, from which you will see that the latter has *requested* the Department to send him a machine on trial. I also inclose a letter from ex-Representative Dick, of Meadville, who is looking after the postmaster at his town. So my little post-office scheme goes working merrily along.

From these letters it plainly appears that Gensler was devoting his attention to securing requests from postmasters, and that there was never any doubt in his mind as to the sale of the machine after such requests were received.

The foregoing plainly indicates, that Gensler had an understanding with officials of the Department to furnish his machines to postmasters if they requested them. Requests from postmasters did not come in fast enough, however, so Beavers went a step further and furnished the Elliott & Hatch when other machines were requested.

About the time the Elliott & Hatch machine came out the Remington Company was making a typewriter designed specially for post-office work, the price of which was $110. A book typewriter, known as the Fisher, costing $150, also was placed upon the market.

The postmaster at Erie, Pa., under authority of the Department dated October 13, 1898, had tested the Fisher book typewriter for thirty days, and on February 14 he reported that it worked satisfactorily and asked permission to expend $150 for it. On February 17 his request was refused, while on February 24, just one week after such refusal, Gensler was authorized to send an Elliott & Hatch machine to Erie, Pa., and on March 26 the postmaster was directed to pay $200 for it (Exhibit U–16).

On October 30, 1899, the postmaster at Council Bluffs, Iowa, advised the Salary and Allowance Division that he had thoroughly tested the Remington machine and found it very satisfactory, and requested permission to purchase one at a cost of $110. His request was declined, but in March following he was authorized to purchase an Elliott & Hatch at a cost of $200 (Exhibit U–11).

On June 27, 1899, the postmaster at Asheville, N. C., asked for an allowance of $110 to purchase a Remington machine. On July 5 the request was refused, but on April 15, 1901, he was authorized to expend $200 for an Elliott & Hatch (Exhibit U–10).

On October 28, 1899, an Elliott & Hatch machine was sent to Concord, N. H., without requisition. Later, the postmaster reported that he had tested both the Elliott & Hatch and the Remington machines, that either was satisfactory, or that he could use both. He was ordered to pay for the Elliott & Hatch and return the Remington (Exhibit U–12).

On October 25, 1899, the postmaster at Decatur, Ill., asked authority to purchase a Smith Premier typewriter at $100, and his request was declined. On November 28, one month later, an Elliott & Hatch machine was sent him for trial, and he was directed to report the result of the test. On December 23 he requested permission to test a Remington typewriter also, so that he might determine which was the better adapted to the work of his office. His request to test the Remington was denied, and on January 23 he was authorized to expend $200 for the Elliott & Hatch. This postmaster, therefore, was not permitted to buy a Smith Premier at a cost of $100, nor to test a Remington, which would have cost $110, but was directed to purchase an Elliott & Hatch at a cost of $200 (Exhibit U–13).

The postmaster at Elgin, Ill., on November 28, 1899, without requisition, was informed that an Elliott & Hatch typewriter would be sent him for trial. On January 9, 1900, the postmaster wrote that he would like to test a Remington also, stating that it was said to be a better machine and cost less money; but on January 12 he was informed that it was not considered advisable to permit a test of the Remington, and two weeks later he was directed to pay $200 for the Elliott & Hatch machine (Exhibit U–15).

On May 26, 1899, the postmaster at Kansas City, Mo., was authorized to expend $200 for an Elliott & Hatch book typewriter; but instead of immediately complying he transmitted to the Salary and Allowance Division a report of the superintendent of the money-order division of his office, stating that he would prefer a Remington typewriter because it was smaller, speedier, and during the test had not needed repairs, while the agent for the Elliott & Hatch had been called in eight or ten times to adjust parts of his machine; and further that the Remington would cost but $110, $90 less than the Elliott & Hatch. But in the face of this report the postmaster was directed to pay $200 for the Elliott & Hatch machine (Exhibit U–17).

On July 18, 1900, the postmaster at Spokane, Wash., requested permission to test an Elliott & Hatch typewriter, which was granted. On December 8 he reported the machine not suited to the needs of his office; that it had serious defects, such as the interlocking of the type bars, imperfect method of changing from upper to lower case, impossibility of keeping it free from dust, lack of durability, and its great size. He recommended that the machine be returned, and asked permission to buy a Remington, which he said he could secure for $100. On December 18 he was advised that authority to purchase the Remington would not be given, but that he should keep the Elliott & Hatch machine, and was directed to pay $200 for it (Exhibit U–21).

The postmaster at Duluth, Minn., after testing an Elliott & Hatch typewriter, wrote the Department that it would be of no advantage to him because there was no one in the office who could operate it. In response to this letter, on April 14, Beavers, through the First Assistant Postmaster-General, wrote:

Referring to your communication of the 10th instant, in which you state that the Elliott & Hatch typewriter is of no advantage to your office unless an additional clerk is allowed, you are directed to continue the use of said typewriter, and under the new appropriation for clerk hire for the fiscal year commencing July 1, 1900, the necessary relief will probably be afforded.

In response to this suggestion, on May 26 an additional clerk with salary at $500 per annum was allowed that office, and the postmaster was directed to pay $200 for the Elliott & Hatch machine. This unnecessary expense for an additional clerk was incurred that an Elliott & Hatch machine might be sold (Exhibit U–14).

These citations are but samples, taken from the records, of Beavers's methods in promoting the sale of these machines. Gensler, however, even by political pressure, was not able to induce any great number of postmasters to ask for the Elliott & Hatch machine, and finally a large number were sent out without requisition. From January, 1898, to April 15, 1901, 193 of these machines were bought by the Department at a total cost of $38,575. Of this number, 131 were sent to postmasters without requisition (Exhibit U–1).

About April 30, 1901, First Assistant Postmaster-General Johnson learned of the useless character of these machines for the postal service and ordered that no more be purchased.

The motive that prompted Beavers to this reckless and wanton waste of the public funds in the purchase of these machines was discovered by Inspectors McKee and Rolfe, who investigated the case. Their report is submitted herewith, marked "Exhibit U."

It appears that Gensler had a contract with the company by which he received $75 on every machine sold to the Post-Office Department, and that he paid W. Scott Towers, superintendent of Station C of the Washington post-office, $50 out of his $75 commissions. Towers, it will be remembered, was the man upon whose favorable recommendation the machines were ordered. Gensler says that he paid the money to Towers; Towers admits receiving it (Exhibit U–28), but denies that he ever paid any part of it to Beavers. The inspectors, however, have conclusive proof that he divided his commission with Beavers, each taking $25 per machine.

Much of the evidence in this case is now in the hands of the United States attorney for the District of Columbia, and is therefore not available for exhibits in this report. Towers and Beavers were indicted by the grand jury of the District of Columbia on October 1 and 5, 1903 (Exhibits U–32, U–33, U–34, U–35, and U–36).

BUNDY TIME RECORDERS.

The letter-carrier service was inaugurated in 1863, and from that time until 1888 there was no difference in the hours of duty of carriers and clerks. All were employed until the work on hand was completed, without regard to hours. In 1888 a law was enacted by Congress restricting letter carriers to eight hours' work per day, and since then it has been necessary to keep a record of the time the carriers were employed each day. The original method of keeping this record was to require the carriers to register in a book the hour they arrived and departed on official employment.

In 1890 the Bundy Manufacturing Company, of Binghamton, N. Y., began the manufacture of clocks with a recording device attached, so constructed as to note the hour and minute that a key is inserted.

Each key has an individual number, and this number appears on the record tape with the exact minute of insertion.

In October, 1891, Harlow E. Bundy, treasurer and manager of the Bundy Manufacturing Company, wrote W. J. Pollock, then Superintendent of the Free-Delivery System, urging the adoption of the Bundy time recorder in the free-delivery service.

Clocks were sent to Washington for examination, and some were placed in large free-delivery offices. After an extensive correspondence, the company finally was informed that the Postmaster-General did not deem it advisable to adopt the use of the clocks. No further consideration seems to have been given the matter until after August W. Machen became superintendent of Free-Delivery in September, 1893. Machen seems immediately to have become interested in the adoption of the Bundy clocks. On October 26 he submitted an estimate to Frank H. Jones, First Assistant Postmaster-General, that the cost of equipping 30 free-delivery offices with these time recorders and keys would be $12,038, or for the entire free-delivery service, $45,599.50.

In the meantime a number of other time-recording devices were pressing for adoption. But, largely through the efforts of Machen (Exhibits V–2, V–3, and V–5), the Bundy clock was selected; and it appears that in June, 1896, an order was given the Bundy Manufacturing Company for 375 time recorders at $75 each, and 50 cents for each key.

The only record of this order is a memorandum in the Department files. The origin of this memorandum is not very clear, but there is little doubt that Machen was directly responsible for the arbitrary purchase of these clocks; and when subsequently the Auditor questioned payment on the ground that purchase was unauthorized, there is evidence which indicates that Machen falsified the record by the introduction of the memorandum in order to secure the passing of the bills by the Auditor (Exhibits V–4 and V–28).

Machen interested John A. Maher, a friend of his, then living in Chicago, but formerly of Toledo, Ohio. Maher became active in his efforts to induce the postmaster at Chicago to recommend the Bundy time recorder in preference to its competitors. In a statement (Exhibit V–5) Maher says:

> I am unable to assign any specific reason for writing this letter or the interest manifested therein by me in Bundy time recorders other than the friendship I entertained toward Mr. Machen since he was 15 years of age, it having come to me, by means that I do not now recall, that Mr. Machen was desirous of securing the adoption of the Bundy time recorder in the Chicago office.

In 1896, when this time recorder was first adopted by the Department, only 1 key was furnished for each carrier. But very soon thereafter it was alleged that 1 key was not sufficient to record a carrier's time properly, and it was decided to supply each carrier with 4 keys for recording, respectively, the time of arrival at the office, the time of leaving on his trip, the time of his return, and the time he went off duty.

About the same time another idea as to keys was developed, and dating keys—that is, 31 for the days, 12 for the months, and 1 for the year, 44 in all—were required to be furnished with each clock in addition to the carriers' keys.

Shortly after adding the dating and the additional carriers' keys,

Machen suggested the use of a device that would cause the clock to strike at any given time, so as to give warning to carriers a certain number of minutes before their schedule time for leaving the office. This device is known as the bell-ringing attachment, and it added $25 additional to the price of the clock, so that to the original price of $75 was added $25 for this device, and $22 for the 44 dating keys, thereby increasing the first cost of each clock to $122. And to this must be added the cost of 4 keys, or $2, for each carrier employed in the office or station where the clocks were placed. The 44 keys were furnished until the year 1901, when their use was ordered discontinued by J. M. Masten, chief clerk to the First Assistant Postmaster-General.

In 1898 First Assistant Postmaster-General Heath extended the use of the time recorder by requiring the post-office clerks to use them. Up to that time they had been purchased through the Free-Delivery Division. Since then purchases have been made by the Salary and Allowance Division, though carriers' supplies of ribbons, tape, keys, etc., were still furnished through the Free-Delivery Division.

An effort was made by First Assistant Postmaster-General W. M. Johnson and his chief clerk, John M. Masten, in 1901, to reduce the price of these time recorders. In August of that year Masten wrote John Dey, of Syracuse, N. Y., inquiring as to the time-recording clock which he was manufacturing. Dey was then in Europe, and Masten was so advised. The files of the Department also show the following memorandum, dated September 24, 1901 (Exhibit V–21):

Mr. BEAVERS:

The First Assistant Postmaster-General directs that these orders for Bundy clocks and keys be held for further consideration. He wants to see the price on clocks reduced to $50, and keys, of case-hardened iron, to 25 cents each. If there are any contracts, please bring them up for examination.

(Signed) J. M. MASTEN, *C. C.*

The matter of furnishing keys was taken up with Benjamin Chambers, of Lodge, Va., who, on October 2, 1901, submitted a proposition to furnish malleable cast-iron keys, fully case hardened, for 23 cents each, or steel keys, case hardened, for 27 cents each (Exhibit V–14).

On October 5, 1901, Robert B. Brown, of Washington, a friend of Masten's, who was frequently in his office, visited Syracuse and asked the Dey Time Recording Company for quotations on time clocks, and the quotations requested were mailed him at his residence in Washington (Exhibit V–24). On the next day, October 6, he wrote the company, asking that a clock be sent to him at his home address in Washington, for the inspection of postal officials, and on the 7th he again wrote Dey, asking him to come to Washington and "close the matter with him." On the 12th a clock was sent to Brown and on the 15th Dey visited Washington and consulted with Brown and Masten (Exhibit V–24). October 23 another clock was shipped to Brown for trial in the Washington post-office, and October 30 Brown acknowledged receipt of the same, stating that it would be delivered to the city postmaster. The clock was placed in the Washington post-office for testing, as suggested.

Brown took great interest in the test of this Dey time recorder, frequently visiting the room where it was located. On December 11 the postmaster made a report upon the Dey clock as follows:

I have the honor to report that in compliance with your request of the 1st ultimo (A. T. H.), I have caused a test to be made in the delivery division of this office of

the Dey time register installed there, running through a period of thirty days, beginning November 5, and have received a report from the Superintendent of Delivery showing the result of the test. From this report, and from my own observation of the register, I have formed a very favorable opinion of it, and am prepared to submit that opinion if you are satisfied to have the test stop there. But as the register has been used only in one division, and by letter carriers only, I should prefer, before reporting finally upon it, to have it tried in another division and by clerks. I ask, therefore, that you allow me, say, ten days additional time from this date in which to test it.

This recorder did not use keys, the record being made by pressing a button. The prices were: Clocks registering 50 employees, $75; 100 employees, $100; 150 employees, $125.

After the report of the postmaster was filed, no further consideration was given the Dey clock, and nothing more was done toward reducing the price of time recorders.

This investigation has developed the fact that in December, 1901, about the time the postmaster made his report on the Dey clock, the Bundy company employed Brown, who had been actively pushing the Dey recorder, as their agent, paying him 10 per cent on all the sales made by that company to the Post-Office Department. Brown therefore abandoned the Dey company in the midst of the test that was being made under his management, and apparently when Brown lost interest in the Dey clock Masten lost interest in the reduction of the cost of time recorders. After the employment of Brown, everything seemed to go smoothly for the Bundy company. On December 30 it submitted the following proposition to the Department:

INTERNATIONAL TIME RECORDING COMPANY,
Binghamton, N. Y., December 30, 1901.

Hon. W. M. JOHNSON,
First Assistant Postmaster-General, Washington, D. C.

DEAR SIR: In compliance with the oral proposition made by Senator Green, the president of this company, we beg to offer to supply the new improved Bundy "time recorder" at one hundred ($100) dollars each, and keys at fifty (50) cents each, and exchange keys at thirty (30) cents each.

Also, supplies at the price at which these have been previously furnished you, viz., ink ribbons, six ($6.00) dollars per dozen; paper tape, two ($2.00) dollars per dozen.

Should the appropriation at the disposal of the Department be at any time insufficient, and the good of the service demands the installation of additional clocks, or the furnishing of supplies for same, we shall be pleased to supply same as heretofore, awaiting payment until next appropriation is available.

This tender, if accepted by you, will continue in force during the term of four years, or the life of the present Administration.

Trusting this will meet with your approval, and awaiting your pleasure, we are,
Very respectfully,

INTERNATIONAL TIME RECORDING COMPANY,
(Signed) H. E. BUNDY, *Treasurer and General Manager.*

These were the exact prices that had prevailed for years. Its acceptance would be of no advantage to the Department, but would be favorable to the company, because it bound the Department for four years to the price which we have a right to assume the First Assistant Postmaster-General and his chief clerk both thought too high. On March 20, following, however, the proposition was accepted by the following letter:

MARCH 20, 1902.

INTERNATIONAL TIME RECORDING COMPANY, *Binghamton, N. Y.*

GENTLEMEN: Your proposition of December 30 last, to furnish such recorders and keys as may be required by the Department, at the following-named prices: Recorders, at $100 each; clerks' keys, at 50 cents each, and clerks' keys in exchange for old keys,

at 30 cents each, is hereby accepted, with the understanding that should the appropriation at the disposal of the Department be at any time insufficient to pay for the recorders and equipment required for the good of the service, you will furnish necessary recorders and clerks' keys and await payment until the Department has funds available therefor.

Very respectfully,
(Signed) J. M. MASTEN,
Acting First Assistant Postmaster-General.

The necessity of a formal acceptance of this proposition does not appear. No such contract had existed before. When clocks were needed, they were bought, and the Department was not required to buy them for any specified time. Such a contract could serve no purpose but to bind the Department to the use of the clocks of this company, at the prices named, for a period of four years, and thereby prevent any further effort toward the reduction of prices. First Assistant Postmaster-General Johnson stated verbally to the inspectors that he was convinced by the arguments of Green that it would not be wise to change time recorders and have two systems in the service. Masten says (Exhibit V–23) that powerful political pressure was brought to bear on the First Assistant Postmaster-General, by Green and others, and that presumably because of this he discontinued further efforts to reduce the price of recorders. Mr. Johnson stated that he had no recollection of ever having seen the written proposal submitted by Green, which was accepted in a letter signed by Masten, and that he did not know that the Department was bound by a four-year contract. First Assistant Postmaster-General Johnson was at that time in poor health and was at his office very little. He depended largely upon Masten's judgment in the management of departmental matters.

Masten's attitude in this clock transaction and his relations with Brown have caused some to question the integrity of his motives in abandoning the idea of a reduction in the price of these clocks at the very time that Brown's interest changed from the Dey to the Bundy company. But a most searching investigation of the financial affairs of both Brown and Masten failed to reveal any evidence that any part of the money received by Brown from the Bundy company has been paid to Masten. Masten has been in the service for many years and has a most excellent record; and while his relations with Brown in connection with these clock transactions were such as to subject him to serious suspicion, yet the record of twenty-two years of upright and efficient service should not be discredited without positive proof; and at this time there is no proof that Masten has been guilty of any acts of dishonesty.

The records of the Department show that since the adoption of the Bundy clocks 1,743 have been purchased, of which 573 were bought through the Free-Delivery Division, and 1,170 through the Division of Salaries and Allowances. The total expenditure for these clocks, exclusive of keys, tapes, and other incidental supplies, has been $160,225. It is not possible to get the exact amount that has been paid for keys and other supplies, but it is quite accurately estimated at $87,150, making the entire expenditure by the Department for time recorders about $247,000.

Postmaster-General Wanamaker declined to adopt the device, believing that it was an unjustifiable expense; but Postmaster-General Wilson and First Assistant Jones, under pressure from Machen, did

adopt the time recorder in the postal service; and this enormous expenditure and the attending scandal have resulted.

At the time the Bundy clocks were adopted, H. J. Truesdell was the general agent of the company. He is not now connected with the company. When first seen by the inspectors he declined to discuss its affairs, but afterwards told an interesting story of his operations while acting as its general agent. He states (Exhibit V–28) that in the year 1896 he paid Machen $1,000 for his services in securing the introduction of the time recorder, and that afterwards he paid him various sums of money. Criminal action on such payments being barred by the statute of limitations, no special effort was made to secure corroborative evidence; but, considering Machen's record in other matters, it is not improbable that Truesdell's statements are true.

Upon inquiry as to the relations of Beavers with the company, Truesdell states that he first met Beavers in connection with the installation of the Bundy clocks in the New York City post-office; that he was having some difficulty because of the opposition of E. M. Morgan, superintendent of the registry division in the New York office; that he met Beavers, then a post-office inspector in the city of New York, and while lunching together at the Astor House he told Beavers of the trouble he was having with Morgan. Truesdell states that Beavers told him (Exhibit V–28): "He could get Morgan in an hour, as they were friends," and that Beavers did arrange with Morgan satisfactorily to him. Subsequently Beavers said that if he "should get the clocks going" he "ought to do something for Morgan" who would expect it; that later he got $1,200 from the Bundy Manufacturing Company and gave $600 of it to Morgan, who said to him that he had to "make a payment on his house," and the other $600 he gave to Beavers.

This, according to Truesdell's statement, was the beginning of an intimate acquaintance between him and Beavers. It seems that Truesdell had a dislike for Charles O. Shepherd, chief of the salary and allowance division under the administration of Postmaster-General Wilson, so he conceived the idea of having Beavers appointed to the place in case of a change in the national administration. In referring to this matter Truesdell (Exhibit V–28) says that the day after the Presidential election in 1896 he asked Beavers if he would like to be appointed chief of the salary and allowance division; that he was going to see that Shepherd was ousted. Beavers expressed his willingness for the position; and Truesdell further states that he interested a number of influential New York politicians in Beavers's behalf; and that after Beavers's appointment, in consideration of orders for recorders, he paid him from time to time various sums of money, usually in amounts of $500 or $600; that these payments were made with the proceeds of checks drawn by the Bundy Manufacturing Company in favor of himself.

Statements of such shameless bribery and official debauchery on the part of one of the parties concerned should be taken with allowance. Truesdell's statements, however, are corroborated in a measure by the following letter found in the files of the Salary and Allowance Division:

GEORGE E. GREEN, MAYOR,
Binghamton, N. Y.

My Dear Colonel HEATH: This is my good friend, Mr. George W. Beavers, of Brooklyn, of whom I spoke during the pleasant interview accorded me in your office. Mr. Beavers is an aspirant for promotion in the Post-Office Department. He is

reliable, trustworthy, and honest; a gentleman in every sense of the word. His ability, capacity, and integrity well fit him for the faithful discharge of all duties pertaining to any office to which he may be promoted.

If you can consistently make him clerk of the salary and allowance department he will fill the bill admirably, and prove an efficient and confidential assistant upon whom you can safely rely. Mr. Beavers's sterling Republicanism has never been questioned.

Very truly, yours,

GEORGE E. GREEN.

Hon. PERRY S. HEATH,
First Assistant Postmaster-General, Washington, D. C.

This letter was not dated, but pencil memorandum indicates that it was acknowledged April 8, 1897.

Beavers was appointed in August, 1897, and became the confidential assistant of Heath, as suggested by Green. In a short time the purchase of time recorders was transferred from the free delivery division to the salary and allowance division, and an order was issued requiring clerks in post-offices to use them in making the record of their arrival and departure. The same reckless waste that characterized Beavers's administration in other matters prevailed in the supply of these time recorders. Requisitions from postmasters were not required. No inquiry was made as to the necessity for clocks before they were shipped to post-offices. Under Machen time recorders were not furnished to the smaller second-class offices, but Beavers sent them in excessive numbers to offices where they could be used and to many offices where there was not the slightest necessity for them. To illustrate:

Berkeley, Cal., has 11 carriers and 7 clerks, yet this office has been furnished with 3 clocks and 162 keys.

Los Angeles, Cal., with 93 carriers and 87 clerks, was supplied with 13 clocks and 840 keys, 438 more keys than the postmaster made requisition for.

Eighty-nine Bundy clocks were sent to St. Louis, with thousands of keys, while 24 were all that could be used in Baltimore and 69 in New York.

Fort Collins, Colo., with 3 carriers and 3 clerks, has been furnished 1 clock and 66 keys.

Bristol, Conn., with 5 carriers and 4 clerks, was furnished 2 clocks, 1 of which has never been taken from the crate.

Winsted, Conn., with 5 carriers and 7 clerks, was furnished 3 clocks and 139 keys.

Warsaw, Ind., with 2 carriers and 3 clerks, was furnished 1 clock and 61 keys.

Independence, Kans., with 3 carriers and 3 clerks, was sent 1 clock with 90 keys.

Westminster, Md., with 3 carriers and 4 clerks, was sent 1 clock and 118 keys.

South Weymouth, Mass., with 2 carriers and 1 clerk, was furnished 1 clock and 58 keys.

West Concord, a station of the Concord, N. H., post-office, has 1 carrier and 1 clerk, yet a clock was placed in that station.

Babylon, N. Y., is not a free-delivery office, and only 2 clerks are employed, yet it has been furnished with a Bundy clock to record the time of arrival and departure of these two employees.

Cambridge, N. Y., has 2 clerks and no carriers, yet it has been furnished with a Bundy time recorder at an expense of over $100.

A time recorder was sent to Bayshore, N. Y., in August, 1902, where there was not an employee in the office except the postmaster and his assistant.

Such profligate expenditure is almost incredible. A hundred such instances as the above could be cited from the records. In the State of New York there are 26 offices with no free delivery, and therefore no carriers, that have been supplied with Bundy clocks. In less than six years Beavers bought 1,170 of these time recorders.

Truesdell for many years was a trusted agent of the Bundy company. His salary at one time was $10,000; certainly very liberal compensation for the character of the services required. Up to the year 1900 all transactions between the Department and the Bundy Time Recording Company were through him, but during that year the company became dissatisfied with Truesdell, and while he was still retained as its agent it also employed George E. Green, its president, as an agent for departmental business in Washington. Green was paid 10 per cent on all sales made to the Post-Office Department. Bundy, treasurer of the company, states (Exhibit V–27) that Green's business as agent was to see that no other time recorders were permitted to be introduced into the postal service and to secure a continuation of the use of the Bundy clock. This commission to Green was in addition to his salary as president of the company.

About the time that this investigation began Green wrote numerous letters urging an immediate investigation of the transactions of his company with the Department. In a letter on June 12 he stated (Exhibit V–29):

> We are ready and anxious to assist the Department in publicly exposing anything wrong or inequitable.

On July 9 he again wrote:

> We only ask what is eminently fair and right, namely, that as soon as consistently possible the charges concerning the sale of Bundy time recorders to the Post-Office Department, and anything associated with the International Time Recording Company, George W. Dunn, and the writer in connection with the Post-Office Department, shall be openly and freely investigated, and then that official report shall be made in consonance with the facts. In view of the circumstances we urgently request, if you have not already had time to investigate the charges made or hinted at, that you do so at your earliest convenience.

Other letters of a similar character were written to different officers of the Department. Green was advised that as soon as practicable the Department's relations with his companies would be taken up. The investigation so persistently urged was begun in July, and several inspectors were assigned to the case. In the course of the investigation they discovered that certain amounts of money, aggregating several thousand dollars, had been paid to Beavers by Green. They were directed to call upon Green for a statement as to the nature of these payments. But disregarding his former protestations, he declined to make any explanation whatever in regard to the matter. He stated that he had been insulted by this inquiry into his private affairs. He was informed that it was charged that Beavers had greatly favored the International Time Recording Company, of which he was president, by the purchase of a large number of clocks that were not needed; that there was evidence tending to show that Beavers had favored his company from corrupt motives; that the inspectors in the investigation had discovered that a large amount of money had been paid by

him to Beavers and that it was necessary to know the nature of these payments so as to determine what bearing they had on the present investigation. He then asked that any questions the Department desired him to answer be submitted in writing, and in compliance with this request the inspectors, on August 18, 1903, submitted to him the following list of questions (Exhibit V–29):

Did you give to George W. Beavers, in February, 1900, about the 6th, your check on the Knickerbocker Trust Company of New York for $500?

If you gave Beavers this $500 check state why the payment was made to him.

Did you give to George W. Beavers, in May, 1900, about the 16th, your check on the Knickerbocker Trust Company of New York for $1,000?

If you gave Beavers this $1,000 check state why this payment was made to him.

Did you give to George W. Beavers, in October, 1901, about the 5th, your check on the Knickerbocker Trust Company of New York for $220?

If you gave Beavers this $220 check, state why the payment was made to him.

Did you give to George W. Beavers, in December, 1901, about the 13th, your check on the Knickerbocker Trust Company of New York, N. Y., for $325?

If you gave Beavers this $325 check, state why the payment was made to him.

Did you give to George W. Beavers, in August, 1901, about the 16th, a draft of the First National Bank of Binghamton, N. Y., for $570.01, on the National Bank of Commerce, in New York, N. Y.?

If you gave Beavers this draft for $570.01, state why the payment was made to him.

Did you give to George W. Beavers in January, 1902, about the 31st, your check on the Seventh National Bank of New York, N. Y., for $331.18?

If you gave Beavers this check for $331.18, state why the payment was made.

Did you give to George W. Beavers in March, 1902, about the 19th, your check on the Seventh National Bank, of New York, for $500?

If you gave Beavers this $500 check, state why the payment was made.

Did you give to George W. Beavers in April, 1902, about the 26th, your check on the Seventh National Bank, of New York, N. Y., for $418.36?

If you gave Beavers this check for $418.36, state why the payment was made.

Did you give to George W. Beavers in May, 1902, about the 15th, your check on the Seventh National Bank of New York, N. Y., for $1,000?

If you gave Beavers this $1,000 check, state why the payment was made.

Did you give George W. Beavers in June, 1902, about the 16th, your check on the Seventh National Bank of New York, N. Y., for $1,750?

If you gave Beavers this $1,750 check, state why the payment was made.

Did you give George W. Beavers in October, 1902, about the 8th, your check on the Seventh National Bank of New York, N. Y., for $842.88?

If you gave Beavers this check for $842.88, state why the payment was made.

Have you paid money to George W. Beavers, either in cash or by check or otherwise, at any times other than those mentioned in the foregoing? And, if so, give the dates of payment, manner of payment, and why such payments were made.

Did you at any time, either directly or indirectly, give or promise to give, or cause to be given or transferred, to Perry S. Heath, George W. Beavers, or any other employee of the Post-Office Department, any share or shares of the stock or any bonds of the Bundy Manufacturing Company, the International Time Recorder Company, or the Doremus Machine Company?

On August 19, in answer to the list of questions, Green said:

Since the time my attention was first called to the fact that business matters between the Department and companies with which I am connected were under investigation, I have repeatedly advised the Department of my willingness and desire to furnish all information possible, and to assist in every way in a full and fair investigation. My requests have not only been ignored, but the Department has seen fit to conduct a secret inquiry concerning my private business affairs, stock transactions, and bank accounts, tending to seriously injure my business and financial standing. This line of investigation has been pursued without giving me any notice or opportunity in advance to aid or assist the officers of the Government. * * * All my transactions with the Post-Office Department have been conducted openly and honestly, and I have nothing to conceal, but it is evident that the Department is not now seeking my cooperation or assistance, and is proposing to continue an inquiry into my private and personal business affairs for some purpose of which I am not advised.

In this view of the case, and acting upon the advice of counsel, I must respectfully

decline to now make any statements in addition to those contained herein and those heretofore voluntarily made in my letters, now on file with the Post-Office Department.

When he declined to make any statement to the inspectors he was subpœnaed to appear before the grand jury of the District of Columbia and asked by the United States attorney as to his relations with Beavers and other departmental officials. He positively declined to answer any question, taking advantage of the principle that a witness can not be compelled to testify where such testimony would incriminate himself.

The result of the investigation shows that Green paid Beavers the 10 per cent commission allowed him by the company on all departmental business. The following table illustrates the method of this payment. The first column shows the date the commission was paid to Green by the company; second, date of deposit in Green's personal account; third, date Beavers deposited Green's check, and fourth, date these checks were charged to Green's account.

Date of payment to Green.	Date of Green's deposit.	Deposited by Beavers.	Charged to Green's account.	Amount.
September 30, 1901	Oct. 1, 1901	Oct. 4, 1901	Oct. 5, 1901	$220.00
December 9, 1901	Dec. 10, 1901	Dec. 12, 1901	Dec. 13, 1901	325.00
January 25, 1902	Jan. 28, 1902	Jan. 30, 1902	Jan. 31, 1902	331.18
April 19, 1902	Apr. 22, 1902	Apr. 26, 1902	Apr. 28, 1902	418.36
September 11, 1902	Sept. 16, 1902	Oct. 8, 1902	Oct. 9, 1902	1,042.88

The aggregate of the payments made by Green to Beavers is exactly 10 per cent on the cost of supplies sold by this company to the Department during a specific time, as shown by the records of the company. Prior to the payment by Green of this 10 per cent, Beavers was paid for post-office sales by Truesdell (Exhibit V–28), but not a specific per cent, as far as can be learned.

Beavers and Green were indicted by the grand jury of the District of Columbia on September 17 and October 1, 1903, under sections 5440, 5451, and 5501 of the Revised Statutes, for conspiracy, fraud, and bribery (Exhibits V–31, V–32, V–33, and V–34).

Green was arrested at Binghamton, N. Y., on September 18, and placed under $10,000 bail, and Beavers in New York City on September 23, and placed under $5,000 additional bail to that already given in other cases.

CANCELING MACHINES.

There are 8 varieties of machines in use in the postal service for canceling stamps and post-marking mail matter; 6 of these are leased and 2 are purchased outright. The purchase and renting of these machines is under the supervision of the General Superintendent of Salaries and Allowances. The appropriation for the rent and purchase of canceling machines for the fiscal year 1896–97 was $60,000. This amount has been increased annually until for the present fiscal year it is $250,000, showing an increase in the amount of money expended for this purpose during the time of Beavers's administration of the Salary and Allowance Division of $190,000, or over 300 per cent.

THE BARR-FYKE MACHINE.

This machine is manufactured in Kansas City, Mo., by a company of which M. A. Fyke is president.

An effort was made in 1897 to introduce this machine in the postal service, which resulted on September 16, 1897, in an order being placed for seven machines at an annual rental of $175. Nothing further was accomplished until Fyke employed the law firm of Dudley & Michener to represent him before the Department, agreeing to pay them $15 per annum for every machine installed for the first year and $30 per annum for every machine in use thereafter. This contract was made in the summer of 1898, and on September 6 the company received an order for 20 additional machines at $175 per annum and in May, 1901, an order for 10 more, making a total of 37. In 1900 the rental of these machines was reduced by the Department to $150 a year; and in August, 1901, Dudley & Michener notified the Department that they no longer represented the Barr-Fyke Company in any form.

There is no evidence that this company ever employed corrupt means to induce departmental officials to use its machines; though Charles V. Fyke, an agent of the company, states that W. D. Doremus, the inventor of the Doremus canceling machine, advised him in 1898, that if he wanted to succeed he should "get down to business" with Beavers and "give him a share of the proceeds." He says, however, that he never followed out the suggestion because he did not care to do business that way (Exhibit W–80).

At present there are 37 of these machines in use at a rental of $150 each per annum, making a total of $5,550 paid to this company annually.

THE COLUMBIA MACHINE.

The Columbia Postal Supply Company, located at Silver Creek, N. Y., manufactures a canceling machine invented by Fred C. Ielfield in 1898. The company is organized and incorporated under the laws of the State of West Virginia, with a capital stock of $200,000, divided into 2,000 shares of $100 each.

The company's first proposal was to rent the Department 100 machines at $200 per annum. In this it was not successful; but in June, 1900, an order was given for 20 machines at $150 a year, and in May, 1901, an additional order for 20 machines at the same rate. There are at present 42 machines in use at $150 per annum, making an annual expenditure of $6,300 for this machine. It does not appear that any improper means have been used to promote the use of this machine.

THE PNEUMATIC MACHINE.

The pneumatic canceling machine is promoted by a corporation organized under the laws of the State of Indiana in the year 1898, with a capital stock of $20,000, divided into shares of $50 each.

D. M. Ransdell, present Sergeant-at-Arms of the United States Senate, became president of the company and retained such position until March, 1901, at which time he sold his stock and resigned.

An effort was made in 1898 to secure the installation of 100 of these machines at a rental of $250 per annum, but nothing was accomplished until May, 1899, when an order was received for 20 machines at $200 each per annum. Ransdell made an effort to secure a more

extended use of the machine, but he was unsuccessful and resigned. In July, 1900, the rent was reduced by the Department to $150.

Mr. Hugh McK. Landon, secretary of the company, states that he made two trips to Washington in 1902, but was unable to secure any additional orders for his machine. He called upon Beavers, but was referred by him to a clerk named H. Clayton Graff "as the man to do business with" (Exhibit W–72). In a personal conversation with Inspectors Hamilton and Greenaway, Landon said that in a conversation at the time of his second visit to Washington, Graff stated to him (Exhibit W–64):

> You know none of us are here for our health. The Government is not liberal in the matter of its salaries and it costs much to live in Washington.

Landon said that there was but one construction he could place upon this statement, and since he did not wish to secure business in that way he ignored the remark of Graff and discontinued his efforts to secure additional orders from Beavers.

At present there are, 20 of these machines in use at $150 per annum, making a total yearly rental of $3,000 paid this company.

THE AMERICAN MACHINE.

The American Postal Machine Company has transacted an extensive business with the Department. It was incorporated December 23, 1885, under the laws of the State of Maine, with a capital stock of $1,000,000, divided into 10,000 shares of $100 each. There were three incorporators—James Barrett, J. G. Cooper, and Sanford Stuart—who contributed $500 each, making a total of $1,500 as the sole assets of the company at the time of its incorporation. In 1892 the company issued 8 per cent bonds in the amount of $100,000. The larger part of the stock and bonds is held by J. G. Cooper and H. B. Rice. Cooper was the original president of the company, but after some years Rice was made president and general manager, and he continued as such until his death early in September of this year.

The first contract the Department had with this company was in 1893, when 17 machines were rented, at $200 per annum. Since that time the number has been increased year by year until at present there are 462 machines in the service. The annual rental continued at $200 per annum until 1896, when it was reduced to $175. In 1900 it was further reduced to $100 per annum; but in 1901 it was increased to $110, which is the present rate of rental.

There is no positive evidence that this company has used corrupt means in securing this extensive use of its machines; but there are some very suspicious entries on its books of certain amounts of money paid to "Washington agent," "introduction and care," "legal services," etc. The aggregate of these payments is $18,580. Rice, the president of the company, stated that most of these payments were made to Alfred D. Cushing, who was employed as the agent of the company in Washington. Cushing's connection with the company terminated in 1900, after which these payments were made to Rice himself, as increased compensation. Cushing states that no money was ever given to officers of the Department.

Before the investigation of this case was concluded, Mr. Rice, president of the company, and who knew more of its affairs than any other, died, and no further information probably can be secured in regard to its dealings with the Department.

There are at present 462 of these machines in use at $110 a year, making $50,820 that is being paid this company annually.

THE HEY-DOLPHIN.

This machine is manufactured by the International Postal Supply Company, of New York, of which Matthew J. Dolphin is president and manager, and George W. Hey is counsel. The company was incorporated in 1885, under the laws of the State of New York, with a capital stock of $2,150,000, in shares of $100 each. Hey and Dolphin control the majority of the stock.

The first contract by the Department for the Hey-Dolphin machine was made in September, 1891, by Postmaster-General Wanamaker, for 100 machines, at a rental of $400 per annum. In 1895 First Assistant Postmaster-General Jones endeavored to secure a reduction of the amount of this rent, but without success. He therefore refused to renew the contract, and the machines went out of the service.

In 1897, when Jones retired from office and Perry S. Heath was made First Assistant Postmaster-General, Dolphin came to Washington and endeavored to secure the reinstatement of his machines, but without success. In September, 1898, however, he received a letter from First Assistant Postmaster-General Heath offering to install 20 of his machines in the service at $600 per annum. This offer was declined. Why Heath refused to consider a proposition for renting them at $400 per annum, yet offered to install a limited number at $600, does not appear. Dolphin seems to have abandoned further effort until June, 1900, when he learned that Heath was going to resign. About that time he came to Washington, called upon the Postmaster-General in person and secured an order for the rental of 100 machines at $400 per annum. This was practically a renewal of the Wanamaker order.

There is at present no evidence that any improper means have been used by this company to secure favorable action on the part of departmental officials.

There are now in use 250 of these machines at a rental of $400 per annum, making $100,000 a year that the Department is paying this company.

THE BARRY MACHINE.

This machine was invented by William Barry, of Oswego, N. Y., in 1883. The first contract between the Department and Barry was in July, 1895, for 100 machines, at a rental of $150 per annum. After securing this order a company was organized with a capital stock of $200,000, in shares of $100 each, with Barry as superintendent.

When the Hey-Dolphin machine was discarded by the Department in 1895, the Barry, in a measure, took its place. In 1897, when the change of administration occurred, the company employed Maj. Ralph Ballin as its Washington agent, which position he held continuously until his death, in February, 1900. Ballin arrived at Washington in May, 1897. He at once called upon First Assistant Postmaster-General Heath and solicited the renewal of the contract for Barry machines. Shortly after this interview Ballin received a call at his room in the Ebbit House from M. D. Helm, who presented a card written in the handwriting of Heath (Exhibit W–32). Helm stated to Ballin that he was formerly from Muncie, Ind., and an intimate friend of the First Assistant Postmaster-General; that he had access to him

at any hour, either at his residence or office, and was in a position materially to aid the Barry Company in its efforts to secure a renewal of its contract. He finally proposed that for a salary of $1,200 per annum he would use his influence to that end. Ballin left a detailed account in his own handwriting of his various interviews with Helm. Referring to these interviews, Ballin wrote:

> At our last interview last evening he, Helm, offered to give all his influence and earnest, honest efforts, as above described, to you for $1,200 per annum. * * * I did not write yesterday for I wanted to see Heath and ask him about the arrangement. Am satisfied that Heath is perfectly honest, but wants Helm to do well.

After this interview with Heath he accepted Helm's proposition and employed him at $1,200 a year from that date. On June 6, in a letter to his company, he says:

> As far as Mr. Helm is concerned we have to take him on trust. He has repeated to me certain private conversations he has had with his "dear friend" and the latter is pleased with the readiness his recommendation was acted on. My judgment is that the salary of $1,200 per annum will prove a small item and that the employment of Mr. Helm will prove well-timed and wise.

On August 20, 1897, Ballin again wrote:

> Perry made an appointment with us for Monday afternoon, and I think it probable that action will be had then. Helm did excellent service and talked to Perry "with the bark off." He has access to his home, and his friendship makes Perry listen to his "words of advice to avoid scandal" with great patience.

This employment of Helm was in the nature of a gratuity because of his friendship with Heath. It does not appear, however, that any other money was ever paid by this company to influence departmental officials. Heath denies (Exhibit X) that he ever gave Helm a card to Ballin, and states that he did not know that Helm was employed by the Barry company.

Helm is the same man who secured the contract for twine from the supply division, and was unduly favored by Louis in the purchase of a large quantity of twine during the closing months of the fiscal year 1900–1901 at the excessive price of $10.95 per hundred. Helm's employment at $1,200 per annum continued until July 1, 1901, when a different arrangement was made, by which he was paid $10 for every machine used. In 1897, after the employment of Helm, the rental price of the machines was raised from $150 per annum to $175, and in 1898 it was advanced to $200. In July, 1900, however, after Heath's retirement from the Department, the rent was reduced to $150.

After the employment of Helm, Ballin seems to have sustained quite intimate relations with Heath and Beavers, so intimate, indeed, that Beavers appealed to him to aid him in securing an increase of $500 in his salary in 1898. On January 12 of that year Ballin wrote his company as follows (Exhibit W–31):

> Beavers wrote to-day to these offices for a report on the Barry machines recently installed, and requested that they send him samples of the work. He wants an increase in salary of $500 and asked me to help him. * * * Of course I cheerfully assented, and I think it good policy to do it.

There are at present 75 of the Barry machines in use at $150 per annum, making $11,250 paid this company.

THE HAMPDEN MACHINE.

The Hampden stamp-canceling machine was invented by W. R. Landfear in 1890. In 1892 Timothy Merrick, of Holyoke, Mass.,

became interested in it. In 1896 Landfear made a vigorous effort to interest the Department in the use of his machine, and employed D. M. Hurlburt as his Washington agent. Hurlburt made a proposition to the Department to sell 100 machines at $200 each, which was declined. In April, 1897, after Perry S. Heath became First Assistant Postmaster-General, Landfear renewed the offer, but it was ignored. In the meantime, however, 10 machines had been installed, at a rental of $175 per annum.

The company was reorganized on June 8, 1898, and George N. Tyner, a brother of late Assistant Attorney-General Tyner, secured a controlling interest in the stock; and another effort was made to sell machines to the Department. The result was that on December 8, 1898, First Assistant Postmaster-General Heath ordered 50 machines at $300 each, and a few months later additional orders were given, until 100 had been purchased. The same machine, with a few slight changes, that had been refused by First Assistant Postmaster-General Jones in 1896 at $200, and again in 1897 by Heath at the same price, was now purchased at $300. George N. Tyner was interested by Landfear and Merrick apparently for no other reason than that they might, through his brother, James N. Tyner, secure business from the Department. Landfear states that the machine had been greatly improved. In referring to this he said (Exhibit W–39):

> At the request of Assistant Postmaster-General Heath the machine has been so remodeled that the cost was greatly enhanced by introducing a pedestal structure and more expensive machinery.

The actual cost of manufacturing the 100 machines bought by the Department, as shown by Exhibits W–39 and W–40, was $70 each for the first 50, and $80 each for the second 50. Whether or not the machine purchased was an improvement over the old one is difficult to determine, but that the new machine was useless there is no doubt; and there is evidence that its worthless character was known to First Assistant Postmaster-General Heath and Beavers before the last order was given. Of the ten postmasters who tested the machines, eight reported adversely, one reported favorably, and then reconsidered, leaving but one testimonial out of the ten that could be considered favorable.

Edward S. Allen, at present a clerk in the post-office at Cleveland, Ohio, states (Exhibit W–41) that in May, 1899, he was detailed by First Assistant Postmaster-General Heath to take charge of the installation and inspection of canceling machines. He accompanied George W. Beavers to Hartford, Conn., and inspected the Hampden machine at the factory. Allen remained there for about two weeks, and thoroughly tested the machines. He says:

> During that period I wrote numerous letters to the Department wherein I stated plainly that the machines could not be made serviceable.

But notwithstanding these reports, the machines were ordered and Allen was assigned to install them. In relation to this work Allen further states:

> I proceeded throughout the country, visiting numerous offices, installing these machines. In no instance can I truthfully say that these machines gave satisfaction, and in a number of cases the postmasters beseeched me to request of the Department that the machines be not uncrated, but be assigned elsewhere, saying that they would rather have no machine, but would rather use hand stamp than have a machine of this make installed, all of which was covered in my previous reports to Mr. Beavers, which in every instance were adverse.

But despite these adverse reports, 50 more of these machines were purchased in 1899 at $300 each.

Allen was a brother of the late George M. Allen, at that time chief clerk to the First Assistant Postmaster-General. His frank reports upon the merits of the Hampden canceling machine were not satisfactory to Heath or Beavers, and he says he was plainly advised that such reports were not desired by the Department. In reference to this matter he says:

> Having returned to Washington after one of my trips, I was called into Mr. Beavers's office and asked to be seated opposite him at his desk. He leaned over his desk, and looking squarely at me he said, "Allen, you have got to quit your talking. You have got to get off the grass." I had been forewarned by my brother, who is now passed away, that it was Mr. Heath's desire that these machines must be installed, and he had warned me also that it was the desire of Mr. Beavers and the General that I did less talking derogatory to the machine. I consequently knew what Mr. Beavers meant. From that time on it was my desire and purpose to simply install machines and refrain from any comment.

The machines proved worthless, and in April, 1901, bids were requested from firms in Washington for remodeling them. The bid of the Doremus Machine Company was accepted, and a number of the machines were rebuilt, at a cost to the Department of $31.50 each, but still they were not a success. The records of the Department show that of the 100 machines purchased in 1898, but 17 were in use on April 29, 1903, 83 having been discarded. George N. Tyner was called upon by the inspectors, but he refused to make any statement. In the interview he said:

> I know what you gentlemen want. You want to get evidence connecting Perry S. Heath, George Beavers, and my brother with these post-office steals, and I can tell you honestly that neither one of them, or anybody else, ever got a dollar in any way, shape, or form in connection with this Hampden canceling machine; and then do you suppose for a minute that if I knew anything incriminating against my brother I would be fool enough to tell you?

He declined to permit the inspectors to examine the records of the company, refusing them any information whatever. More than three years have elapsed since these transactions occurred, and because of the statute of limitation the matter was not presented to the grand jury.

The company was dissolved in 1903 and quit business. After paying all expenses there was $21,940.66 as dividends to the three stockholders, Tyner, Merrick, and Landfear. Tyner and Merrick were allowed, in addition to the dividends paid them, $2,635.32 and $2,639.64, respectively, for sums of money alleged to have been advanced by them in perfecting the machine (Exhibits W–40 and W–48).

The evidence in this case as set forth in the exhibits indicates that, at the request of James N. Tyner, Heath and Beavers paid $300 each for these worthless machines that had been twice offered to the Department for $200, and that at the time the machines were ordered they had abundant reason to believe they were not a success.

THE DOREMUS MACHINE.

The Doremus is a hand-power canceling machine, invented by W. D. Doremus, of Washington, D. C., and manufactured by the Doremus Machine Company. Its original promoters were Doremus, L. T. Michener, member of the law firm of Dudley & Michener, of Washington, and H. J. Truesdell, of Binghamton, N. Y. The com-

pany was organized August 3, 1899, and capitalized for $100,000, divided into 1,000 shares of $100 each. Of the 1,000 shares, 250 were reserved as treasury stock, the remaining three-fourths being divided equally between Doremus, Truesdell, and the firm of Dudley & Michener. The 250 shares of treasury stock were transferred shortly after the organization of the company to George E. Green, of Binghamton, N. Y., in consideration of his agreement to guarantee the expense of manufacturing the first 100 machines.

It was also agreed that he should be reimbursed for any expenditures he might incur from the proceeds of the first sales of the machines. Doremus was elected president when the company was organized; Truesdell, treasurer and manager. But a year later Doremus was superseded as president by Green, who holds the position at the present time. Doremus first interested Michener in his invention. Michener suggested Truesdell as a man who could aid him in promoting his device. Truesdell was at that time general agent for the Bundy Clock Company, of which Green was president, and through Truesdell Green became interested in this canceling machine.

Truesdell, as we have seen heretofore, was intimate with Beavers, and when the machine was tested Beavers was present to watch its operations. After carefully observing the test Beavers familiarly remarked to Truesdell: "Herb., if that works in a post-office as well as it does here you have got a fortune." At Beavers's suggestion 2 machines were constructed and placed in the Washington post-office to be tested. On May 16 a proposition was made to sell to the Department these machines, at $250 each, and the following day an order was given the company for 10 at that price; but for some reason this order was not filled, and on June 28, about six weeks later, an order was placed for 75 machines at $150 each. After this order had been given, the firm of Dudley & Michener requested Beavers to ask for a report from W. Scott Towers, superintendent of Station C, of the Washington post-office, in regard to the merits of the machine. On July 15 Towers made the report, but it did not seem to please Beavers, and he requested another, asking Towers to make "the best report possible." (Exhibit W–1.) This "best report possible" was made as requested. Beavers did not wait for it, however, before giving an order for 75 machines.

After this order was given the Doremus company contracted with the Garvin Machine Company, of New York, to build 100 machines at a cost of $45 each. This price did not include certain equipment which was furnished by the Doremus company at an expense, it is claimed, of $11.75, making the total cost of each $56.75 (Exhibit W–2). The first shipment of machines was made in December, 1899; and on the 14th of that month, before any report as to their efficiency was received, an additional order for 25 was given. This first machine is known as model No. 1; and long before the 100 had been delivered the Department received numerous complaints from postmasters, stating that they were worthless.

On account of the great dissatisfaction with model No. 1 the Doremus company established a factory of their own in Washington and began the manufacture of model No. 2, and solicited further business from the Department. It was claimed that model No. 2 was a greatly improved machine and much more expensive to construct than No. 1, and on June 30, 1900, Beavers, without testing its efficiency, contracted

for 100 model No. 2, at $225 each. The company was not ready to ship this new model until December, however, and in the meantime complaints continued to come from postmasters of the useless character of the Doremus machine.

As a result of these numerous complaints a proposition was made by the company to exchange the new machine for the old one by the Department paying $75 additional, which proposition was accepted. The cost of the new machine (Exhibit W-2) was between $45 and $50.

Model No. 2, however, did not prove any more satisfactory than model No. 1, as indicated by the following letters from postmasters.

On April 9, 1901, Winslow Gray, postmaster at Campello, Mass., wrote:

> The Doremus canceling machine just received is worse than the old one. It looks to me as if it was an experiment. I am not sure of a good postmark any time when using it, nearly half the letters run through come out like the one inclosed, and we are obliged to stamp them over by hand. It is easier to stamp all by hand than to use the machine.

On May 3, 1901, the postmaster at Dixon, Ill., wrote:

> It is my duty to report that the Doremus canceling machine has not been in use in this office for about six weeks, my clerks claiming that they can do better work by hand.

H. M. Glen, postmaster at Seneca Falls, N. Y., on April 20, 1901, wrote:

> Some two months ago one of the Doremus machines was placed in this office. * * * We have tried every way to make a success of it, but failed, so that it stands idle. A general repair inspector came here and tried to adjust it, but with no success. My chief clerk is a mechanical engineer and was at one time the superintendent of a large machine shop here, and he has given considerable time in trying to make it work, but with no success.

The postmaster at Louisville, Ky., on May 18, 1901, wrote:

> In April, 1901, a new machine was received from the Doremus Machine Company and immediately installed at Station B under the direction of the Department inspector of canceling machines. After a most thorough and impartial trial this office, under date of May 2, 1901, reported the new machine as entirely unsatisfactory, and that attempts to utilize it involved so much delay and annoyance that we had been compelled to abandon the use of it entirely. As the machine is entirely useless to us, and is occupying space that could be utilized for better purposes, I hesitate about paying this bill until all the facts are laid before your Department for consideration.

R. J. Cox, postmaster at Delaware, Ohio, on June 24, 1901, wrote:

> I desire to protest against the use of the Doremus canceling machine at this office. I believe the machine is a failure. * * * Our present Doremus machine is the second one furnished us, and it is very little better than the first one.

These are but samples of the many letters received.

Yet, in the face of these complaints, before the last order had been completely filled, a third order for 100 machines was given. The protests from postmasters, however, became so numerous and positive that the company was, on July 19, 1901, directed to withhold further shipments on this last order until the machines could be improved. The new machine was examined by H. C. Graff, inspector of canceling machines, who reported 35 items for improvement in its construction (Exhibit W-18).

As a result of the second failure the company again undertook to improve the machine so as to make it of some practical value. Model No. 3 was created, and promptly on December 17, 1901, another order

was given for 100 machines of this latest model at $225 each. An agreement was made to exchange model No. 3 for model No. 2 by the payment of $75 difference; but No. 1 was not included in this last exchange agreement. Of the 200 machines purchased of models Nos. 1 and 2 only 39 are now in use, the remaining 161 being practically a net loss. Model No. 3 proved to be fairly satisfactory.

The following shows the date, number, and price of the Doremus machines ordered by the Department:

June 28, 1899, 75 machines, Garvin Machine Company, $150 } No. 1.
Dec. 14, 1899, 25 machines, Garvin Machine Company, $150 }
June 30, 1900, 100 machines, Doremus Manufacturing Company, $225, No. 2.
May 3, 1901, 100 machines, Doremus Manufacturing Company, $225 }
Dec. 17, 1901, 100 machines, Doremus Manufacturing Company, $225 } No. 3.
May 3, 1902, 200 machines, Doremus Manufacturing Company, $225 }

This makes a total of 600 ordered and paid for. In addition to this, 64 were ordered for exchange of models Nos. 2 and 3, and seven additional orders for specific offices, making a total of 671 machines purchased from this company by the Department at a cost of $143,475.

This is a repetition of the story of automatic cashiers and Elliott & Hatch typewriters, except that it is on a larger scale. The motive that induced the purchase of these worthless machines was developed by Inspectors Holmes and Gregory. Their report is submitted as Exhibit W–1.

On December 11, 1899, Dudley & Michener sold their stock to Truesdell. He immediately transferred it to Green, who then became owner of half the stock of the company.

HEATH ACCUSED.

In 1901 Truesdell and Green became estranged, and as a result, Truesdell left the employ of the Bundy Clock Company and also sold his interest in the Doremus canceling machine. When interviewed by the inspectors Truesdell stated that before the order of June 30, 1900, was given for 100 machines of the model No. 2, 200 shares ($20,000 worth) of the stock of the company was transferred to Perry S. Heath, First Assistant Postmaster-General; that in consideration of the transfer of this stock Heath promised to order not less than 300 machines at $225 each. In his affidavit (Exhibit W–3) Truesdell states that Green told him that he had made this agreement with Heath at the Waldorf-Astoria Hotel one Saturday night, and that he thought Truesdell and Doremus should "whack up" with him. Truesdell states that he agreed to contribute his share, and that he transferred 50 shares of his stock to Green for that purpose. Truesdell further states that Green at the time submitted to him a telegram or letter from Heath, in disguised expression, acknowledging receipt of the certificates of stock; and that afterwards he, Green, and Doremus discussed the matter, and Doremus agreed to contribute 50 shares of his stock. Doremus denies any knowledge of stock having been given to Heath, but states that he did contribute 50 shares of stock, par value $5,000, to Green to be used for the best interests of the company. Truesdell further states that Green at a subsequent date purchased back from Heath this stock. Doremus admitted to the inspectors (Exhibit W–2) that Truesdell told him subsequently that the stock which Green asked them to contribute was to be transferred to Perry S. Heath in consideration of receiving a large order for machines.

Ida E. Crowell, Truesdell's secretary, who was a bookkeeper in the office of the Doremus Machine Company from October 3, 1900, until August, 1901, states that Doremus, in discussing the transfer of this stock to Heath, in her home in New York, at 234 West Twenty-first street, stated that he thought it was a mistake to give the stock to Heath; that he was now out of the Department and could no longer be of service to them, and that Green had given stock to the wrong man (Exhibit W–12).

Heath refused to make a written statement, but said verbally to Inspector Simmons that he never received any stock from the Doremus Canceling Machine Company, or any remuneration of any kind, directly or indirectly (Exhibit X). Beavers and Green declined to talk in regard to the matter.

A summary, therefore, of the evidence as to Heath's having received this stock is as follows: The stock of the company was practically owned by three individuals—about 50 per cent by Green, 25 per cent by Doremus, and 25 per cent by Truesdell. Truesdell says Green told him that he agreed to transfer to Heath $20,000 worth of this stock in consideration of receiving an order for not less than 300 machines; that Green asked him to contribute his proportion, or $5,000 worth of the stock, which he did. Doremus stated that he contributed $5,000 worth of his stock to Green, to be used in the interest of the company, but in what manner it was used he does not know.

Ida E. Crowell, bookkeeper of the company, states that she heard Doremus discussing the subject of stock having been given to Heath, in which he criticised the judgment of Green for so doing.

Heath denies that he received the stock. Green and Beavers refuse to talk.

From the above it is evident that Green told Truesdell and Doremus he had given this stock to Heath, and that they believed it. Otherwise they would not have contributed their share of the "gift."

MONEY TO BEAVERS.

Truesdell in his affidavit states that on each machine sold the Departpartment after the first order for 100 of model No. 1 the company was required to pay Beavers $25, which he stated was to be divided with Heath; that on the first 100 he did not receive $25 each, but a lump sum of money, as he remembers, $500; that he met Beavers by appointment at South Ferry, New York, where they took a hansom cab and rode several blocks, at which time he paid Beavers this money as a "gift" on account of the first order for 100 machines.

Truesdell further states that the agreement that Beavers should receive $25 on each machine was first discussed by Beavers, Green, and himself at the St. James Building, New York, and afterwards consummated at the Raleigh Hotel in Washington. In regard to the payments to Beavers, Truesdell says that he made them to him personally as long as he was connected with the company; that Beavers usually came to the office at 300–302 Thirteenth street NW., Washington, D. C., and received the money; that when he made a payment to Beavers he would secure the money by sending his bookkeeper, Mrs. Ida E. Crowell, to the bank with a check; that she would have the check cashed and bring the currency to him and then absent herself from the room when Beavers called to receive it; that the amount of these payments was entered upon the books of the company as "com-

mission account;" that the character of this account was known to Doremus and Green and was frequently a subject of conversation between them; that—

> Frequent statements were made from the books, at the request of Green, for his information by the bookkeeper, Mrs. Ida E. Crowell. Such statements, showing the item of "commission," were usually examined by W. D. Doremus, and duplicates of the same were retained in the office of the company. The payments to Beavers referred to, and which Beavers alleged were to be divided with Perry S. Heath, were made with the positive knowledge and approval of George E. Green and W. D. Doremus.

Truesdell states that when the third order was given for 100 machines in the year 1901 the same arrangement was continued and that Beavers was to be paid $25 per machine. Beavers stated to him that he supposed Heath would still expect his share, even after he had left the Department.

Truesdell states that he knows from personal knowledge that four sums of $500 each were paid to Beavers, namely:

$500 paid in New York in the spring of 1900.
$500 paid February 13, 1901.
$500 paid February 27, 1901.
$500 paid March 14, 1901.

Ida E. Crowell, the bookkeeper, in an affidavit (Exhibit W–12) states that she drew the checks, usually for $500 each, and had them cashed, procuring, as she remembers, bills of $100; that when she returned to the office with the money Beavers would be advised by telephone to call; that when Beavers in response to this invitation, came to the office she retired from the room, and that when she returned the money was gone and she would charge the amount in the blotter and on the ledger to "commission account." She further states that she heard Doremus and Truesdell discussing the "commission account" and knows that Doremus was thoroughly familiar with the proceedings (Exhibit W–12).

These checks were drawn on the account of the Doremus Machine Company at the Seventh National Bank of New York and cashed by the Citizens' National Bank of Washington, D. C. An examination of the records of the Citizens' National Bank confirms the statements of Truesdell and Ida E. Crowell as to the cashing of checks in the amounts named:

February 13, 1901	$500
February 27, 1901	500
March 14, 1901	500

The statements of Truesdell and Ida E. Crowell are corroborated in a general way by William W. Long, of Washington, D. C., who says (Exhibit W–13) that from May, 1901, until the latter part of August of the same year he was employed to post the books of the Doremus Machine Company; that he made two complete sets of books, consisting of blotter, cash book, and ledger; that he found on the old ledger an account entitled "commission account," and that subsequently in posting the books he made other entries in the "commission account;" that the items for such entries were taken from the blotter where they had been entered by Mrs. Crowell as follows: "To cash, $———, commission account," with the date of entry, but without the name of the individual; that his recollection is that these items usually amounted to about $500.

Mrs. Ida E. Crowell, the bookkeper, left the employ of the company in August, 1901, and Truesdell in the October following, and they have no further knowledge of its transactions. After the termination of Truesdell's employment, Green attended to the business personally, as in the case of the Bundy clocks. Fortunately he has left a more definite record of the payments to Beavers than was made by Truesdell.

As has been stated, an account of the company was kept in the Seventh National Bank, of New York. In the same bank Green also kept an account. On March 14, 1902, Green drew a check for $500 on the account of the Doremus Machine Company in the Seventh National Bank; on March 15, the personal account of Green in the same bank was credited with the same amount, and on March 18 Beavers deposited in his account in the Nassau Trust Company, of Brooklyn, N. Y., a check on the Seventh National Bank, of New York, for $500. And on March 19 the personal account of Green in the Seventh National Bank, of New York, was charged with a check for $500.

On May 10, 1902, a check for $1,000 was charged to the account of the Doremus Machine Company in the Seventh National Bank, and on the same day the personal account of Green was credited with that sum; four days later, George W. Beavers deposited by letter from Washington, D. C., with the brokerage firm of Moore & Schley, of New York, the personal check of George E. Green for $1,000.

On June 14, 1902, the account of the Doremus Machine Company in the Seventh National Bank of New York is charged with a check for $1,750, and on the same day the personal account of Green in the same bank is credited with the identical sum. The next day Beavers deposited with the brokerage firm of Moore & Schley the personal check of George E. Green for $1,750.

There were 130 Doremus canceling machines installed by the Post-Office Department from January 1, 1902, to June 1, 1902. The three checks referred to aggregate $3,250, an amount exactly equivalent to $25 each on 130 machines.

The following is a summary of the foregoing payments by the Doremus Machine Company to Beavers:

$500 paid at South Ferry, New York, spring of 1900, by Truesdell.
500 paid at Washington, D. C., February 13, 1901, by Truesdell.
500 paid at Washington, D. C., February 27, 1901, by Truesdell.
500 paid at Washington, D. C., March 14, 1901, by Truesdell.
500 paid March 18, 1902, by Green, check on Seventh National Bank, New York.
1,000 paid May 14, 1902, by Green, check on Seventh National Bank, New York.
1,750 paid June 15, 1902, by Green, check on Seventh National Bank, New York.

5,250

One hundred and sixty-eight machines have been furnished by this company that have not yet been paid for, leaving an unadjusted balance of $38,000. I respectfully recommend that this be not paid until the liability of the Department is legally determined.

When it was publicly known that an investigation was to be made of Beavers's official record, Green manifested the same anxiety for immediate action by the Department in the matter of canceling machine contracts that he did in reference to Bundy clocks. On May 21 he wrote the First Assistant Postmaster-General as follows (Exhibit W–15):

My attention has been called to the fact that one or two "yellow journals" have mentioned the name of the Doremus Machine Company in connection with some of

the "scandals." In behalf of the company, and for myself personally, I beg to assure you that there is not one single transaction which we have had with the Post-Office Department or the Government officials that we are not only willing, but glad, to have dissected on the top of the table in plain sight of everybody. I believe this assurance is unnecessary to make to you.

And on May 30 he wrote the Fourth Assistant Postmaster-General, saying (Exhibit W–15):

Permit me to assure you that there is nothing, so far as I am informed, differing in the business transactions with the Government and the Post-Office Department from those with commercial customers; nothing in connection with negotiations or business conditions to conceal, but, on the contrary, both of these companies court the fullest and most open investigations possible concerning each and every transaction, past, present, or future.

While doubtless both companies would be gratified to continue pleasant business relations with the Government, the greatest anxiety on the part of the managements consists in not wanting to be placed in a false position from misinformation or want of information respecting the complete and exact facts relating to past or present transactions.

When the inspectors had fully familiarized themselves with the case so that they could intelligently interrogate Green, they called upon him and asked specifically in regard to these financial transactions with Beavers, but he refused to make any statement whatever.

He was then subpœnaed to appear before the grand jury for the District of Columbia, and was there questioned by the district attorney, but he still refused to answer, hiding behind the provision of the law that a man can not be compelled to testify if such testimony would incriminate himself.

The inspectors also called upon Doremus and asked permission to examine the books of the company to verify or disprove the truth of the statements of Truesdell, Ida E. Crowell, and Long, but they were refused permission to see the books. Doremus claimed that they were not in his custody; that he had no authority over them, and could not, therefore, permit them to be examined; that they were in the charge of L. S. Fish, the bookkeeper. Fish was then subpœnaed to produce the books before the grand jury. He answered the subpœna, but stated that the books of the company had been burned last winter.

The case was presented to the grand jury of the District of Columbia, and on October 5, 1903, indictments were found against Green, Doremus, and Beavers (Exhibits W–88 and W–89).

The evidence against Heath was also submitted, but the district attorney decided that it was not sufficient to warrant his indictment.

The administration of Beavers was, if possible, more demoralizing upon the integrity of the service than that of Machen. Machen sought to avoid the appearance of evil, to cover up his corrupt intrigues, and to keep his real purposes hidden from the public view. Beavers was reckless in his methods and seemed to care little for the outward appearance; but he was exceedingly careful that no legal evidence should exist of his unlawful acts. He would not accept Truesdell's check. At first he would not even take currency direct from Truesdell's hand, but required it to be placed in a drawer and everybody to leave the room, that he might go in unobserved and secure the money without anybody even having seen him enter. But long-continued criminal practices make men bold, and finally he began to accept Green's checks and money from Towers in such a way that a written record of the transactions was left. There are many irregularities in Beavers's

record of minor importance as compared with the canceling machine, automatic cashier, and typewriter swindles. To illustrate:

From July 1, 1898, to May 31, 1899, Beavers was paid a per diem of $4 for every day in the week, Sunday excepted, upon the theory that he was employed in the adjustment of letter carriers' overtime in the New York post-office, when in fact he rendered no service of that kind whatever. The payment was authorized by the auditing office upon the theory that Beavers's salary was not commensurate with the value of his services (Exhibit X–1).

In 1898 he made an alleged official trip to the Pacific coast (Exhibit X–2); and after a junket of about six weeks he rendered a bill to the postmaster at Washington for $324 as "expenses," without submitting a single voucher or receipt. This bill was paid and passed the auditing office, while the accounts of other officers were scrutinized with great care. But the limitations of this report will not permit a narrative of minor details. That must be left for the exhibits.

CONCLUSION.

For the purposes of this report, the investigation ordered by you on March 7 has been completed. In the preparation of cases for trial, where indictments have been found, information may be secured which will necessitate further investigation and possibly involve persons not now implicated.

More than 40 inspectors have been employed upon this work; some of them continuously every day since the investigation began. The records of a thousand post-offices have been examined and the files of many divisions of the Department, covering a period of from six to ten years, scrutinized.

The system of organized corruption that has been disclosed began in 1893 and continued until stopped by this investigation. The amount of money secured by the corrupt officials and their confederates is small as compared with the total loss to the Government. To illustrate: There is no evidence that Louis received any compensation from Ault & Wiborg, yet during the first year of his administration the expenditures for canceling ink increased over $10,000.

It does not appear that Kempner received money from the manifold company, yet the cost of manifold supplies increased more than $40,000 a year.

Barrett received but $6,000 from Arnold, yet that company defrauded the people out of over $3,000,000.

Machen probably did not receive more than $26,000 from the Groff fastener. Yet the Government has paid approximately $130,000 for that device, which represents a net loss, since the Department continued, by the terms of the contract for letter boxes, to pay for the original fasteners.

Beavers and his associates received less than $20,000 from the automatic cashier. Yet the Department expended $74,275 for this wholly unnecessary machine.

The total amount that the perpetrators of these frauds themselves received can not be definitely learned, but it will aggregate between $300,000 and $400,000; while the loss to the Government, considering the unnecessary supplies that have been purchased and the inferior

quality of those furnished by fraudulent contractors, can not be estimated with any degree of accuracy.

As the gross abuses have been brought to light they have been promptly corrected by the proper departmental officers. Contracts, where fraud has been discovered, have been annulled.

As a result of the investigation, four officers and employees of the Department have resigned and thirteen have been removed. Forty-four indictments have been found, involving thirty-one persons, ten of whom have been connected with the postal service. Attached to this report is a list of those who have been separated from the service by resignation and removal; also a complete list of the indictments and the persons involved.

I can not speak in too high praise of the industry and intelligence of the inspectors and their loyalty to the interests of the service. The success of the investigation is largely due to them. They have sought the truth with eagerness and skill. No accounts have been too intricate for them to unravel, no labor too burdensome to undertake. Under the immediate charge of Chief Inspector William E. Cochran they have worked in perfect accord. A list of the inspectors who have been employed on the investigation is attached to this report.

The results of the investigation demonstrate that all traveling agents of the Department, such as assistant superintendents of Salaries and Allowances, of the Free Delivery Service, the Railway Mail Service, and the Registry System, and inspectors, should be placed under one organization.

A number of changes should be made in the organization of the Department in order to provide a more perfect check on the operations of various divisions, and some restrictive legislation affecting the divisions of Salaries and Allowances, of Rural Free Delivery, and possibly others may be necessary. What the service most needs, however, is honest, intelligent, and vigorous administration. The corruption disclosed is not due to lax laws but to the dishonesty of those who have been charged with the responsibility of administering them.

In closing permit me to express my most sincere appreciation of the cordial support I have received from you during the progress of the investigation. The hearty cooperation of First Assistant Postmaster-General Wynne, whose bureau has been so largely involved, and of Assistant Attorney-General Robb has been of great value.

Respectfully submitted.

J. L. BRISTOW,
Fourth Assistant Postmaster-General.

The POSTMASTER-GENERAL.

APPENDIX.

LIST OF INSPECTORS EMPLOYED ON THE INVESTIGATION.

W. E. Cochran, chief inspector.

Inspectors in charge of divisions.

Martin C. Fosnes, St. Paul.
Paul E. Williams, Chattanooga.
William J. Vickery, Cincinnati.
Joe P. Johnston, New Orleans.
George D. Linn, Spokane.
John R. Harrison, Kansas City.
Lawrence Letherman, Boston.

City inspectors.

Walter S. Mayer, Chicago.
George M. Sutton, Washington.
Ervin H. Thorp, New York.
James O'Connell, San Francisco.
Frank E. Little, New York.
Abraham R. Holmes, Cincinnati.
Frank M. Hamilton, New Orleans.
Robert M. Fulton, St. Louis.
Joseph D. Farrell, Chicago.
John D. Sullivan, St. Louis.
Michael H. Boyle, New York.
Charles H. Thomas, Chicago.
Edward L. McKee, Kansas City.
Charles E. Crowell, Brooklyn.
William B. Snow, Boston.
James T. Cortelyou, Jersey City.
Albert E. Furniss, Washington.
Walter B. Piatt, St. Louis.

Field inspectors, with division to which assigned.

Rush D. Simmons, Kansas City.
Confucius L. Wayland, Spokane.
Lake Jones, Chattanooga.
Edwin A. Niess, Boston.
John F. Oldfield, Cincinnati.
Emmons Rolfe, New Orleans.
Hardy T. Gregory, Chattanooga.
Nathan Noile, St. Paul.
George F. H. Birdseye, Boston.
James E. Bennett, Denver.
William E. Greenaway, Chattanooga.
John W. Bulla, Washington.
James J. Smyth, Chattanooga.
Harry B. Hall, San Francisco.
William M. Ketcham, Chicago.
Sherman C. Kile, Cincinnati.
George W. Holloway, jr., Chicago.

RESIGNATIONS.

George W. Beavers, General Superintendent of Salaries and Allowances. Appointed to clerkship in New York post-office January, 1881. Resignation accepted to take effect March 31, 1903.

G. A. C. Christiancy, assistant attorney, Post-Office Department. Appointed January 1, 1901. Resignation accepted October 12, 1903.

Charles T. McCoy, assistant superintendent, Free-Delivery Service. Appointed post-office inspector March 18, 1898. Resignation accepted October 17, 1903.

William H. Landvoigt, superintendent, classification division. Appointed temporary messenger August 6, 1875. Resignation accepted October 24, 1903.

REMOVALS.

James N. Tyner, Assistant Attorney-General for the Post-Office Department. Appointed special agent, Post-Office Department, March 7, 1861. Removed April 22, 1903.

Daniel V. Miller, assistant attorney, Post-Office Department. Appointed July 1, 1902. Removed May 25, 1903.

James T. Metcalf, Superintendent Money-Order System. Appointed post-office inspector February 2, 1882. Removed June 17, 1903.

A. W. Machen, General Superintendent Free-Delivery System. Appointed clerk in post-office at Toledo, Ohio, March 1, 1887. Removed May 27, 1903.

Charles Hedges, superintendent of city free-delivery service. Appointed assistant superintendent Free-Delivery Service July 1, 1898. Removed July 22, 1903.

James W. Erwin, assistant superintendent, Free-Delivery Service. Appointed post-office inspector June 27, 1887. Removed September 16, 1903.

Louis Kempner, superintendent, Registry System. Appointed clerk in post-office at New York, N. Y., August, 1886. Removed October 21, 1903, as recommended.

W. Scott Towers, superintendent Station C, Washington, D. C. Appointed clerk Washington post-office November, 1890. Removed October 1, 1903.

Otto F. Weis, assistant superintendent, registry division, New York, N. Y., post-office. Appointed clerk New York post-office June, 1890. Ordered removed October 21, 1903.

T. W. McGregor, clerk, free-delivery division, in charge of supplies. Appointed page, Post-Office Department, March 11, 1891. Removed June 5, 1903.

C. E. Upton, clerk, free-delivery division. Appointed July 1, 1900. Removed June 5, 1903.

M. W. Louis, Superintendent of Supply Division. Appointed cashier, Kansas City, Mo., post-office, April 17, 1897. Removed October 21, 1903, as recommended.

Charles B. Terry, clerk, supply division. Appointed temporary clerk September 20, 1900. Removed October 21, 1903.

Many of these persons have been separated from the service since they were first appointed, but only the original appointments have been given.

PERSONS INDICTED AND NUMBER FOUND AGAINST EACH.

	No. of indictments.		No. of indictments.
Machen, A. W	14	Hallenbeck, H. C	2
Beavers, George W	8	Doremus, W. D	2
Green, George E	5	Scheble, Eugene D	2
Barrett, H. J	5	Crawford, Wm. G	2
Groff, Diller B	3	Upton, C. E	1
Groff, Samuel A		Runkle, Maurice	1
Tyner, James N	3	Metcalf, James T	1
Long, William C	3	Metcalf, Norman R	1
McGiehan, Isaac S	3	Stern, Leopold J	1
Huntington, Geo. H	3	Erwin, James W	1
Towers, W. Scott	3	Driggs, Edmund H	1
Lorenz, George E	2	Miller, George F	1
Lorenz, Martha J		Miller, Daniel V	1
McGregor, Thomas W	2	Johns, Joseph M	1
Cupper, John T	2		

Indictments against two other persons have been returned, but the arrests have not as yet been made.

The following is a list of the indictments that have been found:

At Washington, D. C.

Indictment No. 23786. August W. Machen, indicted June 5, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of Groff fasteners.

Indictment No. 23788. Diller B. Groff and Samuel A. Groff, indicted June 8, 1903, for violation of section 5451, Revised Statutes. Bribery of A. W. Machen, in connection with purchase of Groff fasteners.

Indictment No. 23810. George E. Lorenz, Martha J. Lorenz, August W. Machen, Diller B. Groff, and Samuel A. Groff, indicted June 22, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of Groff fasteners.

Indictment No. 23823. August W. Machen, indicted June 29, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of Groff fasteners.

Indictment No. 23824. Diller B. Groff and Samuel A. Groff, indicted June 29, 1903, for violation of section 5451, Revised Statutes. Bribery of A. W. Machen in connection with purchase of Groff fasteners.

Indictment No. 23860. August W. Machen, Thomas W. McGregor, and Maurice Runkle, indicted July 31, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of carriers' pouches.

Indictment No. 23861. August W. Machen, John T. Cupper, and William C. Long, indicted July 31, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with the painting of street letter and package boxes.

Indictment No. 23862. Leopold J. Stern, August W. Machen, and William C. Long, indicted July 31, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with the purchase of carriers' satchels and shoulder straps.

Indictment No. 23863. John T. Cupper, indicted July 31, 1903, for violation of section 5451, Revised Statutes. Bribery of August W. Machen in connection with painting of street letter and package boxes.

Indictment No. 23864. William C. Long, indicted July 31, 1903, for violation of section 5451, Revised Statutes. Bribery of August W. Machen in connection with painting of street letter and package boxes.

Indictment No. 23865. August W. Machen, William G. Crawford, George E. Lorenz, and Martha J. Lorenz, indicted July 31, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of carriers' satchels and shoulder straps.

Indictment No. 23866. William Gordon Crawford, indicted July 31, 1903, for violation of section 5438, Revised Statutes. Making and presenting false claims in connection with purchase of carriers' satchels and shoulder straps.

Indictment No. 23906. Isaac S. McGiehan, George H. Huntington, and A. W. Machen, indicted September 8, 1903, for violation of section 5440, Revised Statutes. Conspiracy to commit an offense against the United States in connection with purchase of package boxes.

Indictment No. 23907. Isaac S. McGiehan, George H. Huntington, and A. W. Machen, indicted September 8, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of package boxes.

Indictment No. 23908. Isaac S. McGiehan and George H. Huntington, indicted September 8, 1903, for violation of section 5451, Revised Statutes. Bribery of August W. Machen in connection with purchase of package boxes.

Indictment No. 23909. Eugene D. Scheble and August W. Machen, indicted September 8, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of street letter boxes.

Indictment No. 23910. Eugene D. Scheble and August W. Machen, indicted September 8, 1903, for violation of section 5440, Revised Statutes. Conspiracy to commit an offense against the United States in connection with purchase of street letter boxes.

Indictment No. 23911. August W. Machen, indicted September 8, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of street letter boxes.

Indictment No. 23912. George W. Beavers, August W. Machen, and James W. Erwin, indicted September 8, 1903, for violation of section 5440, Revised Statutes.

Conspiracy to defraud the United States in connection with purchase of Montague device.

Indictment No. 23926. George W. Beavers, indicted September 17, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of Bundy time recorders.

Indictment No. 23927. George E. Green, indicted September 17, 1903, for violation of section 5451, Revised Statutes. Bribery of George W. Beavers in connection with purchase of Bundy time recorders.

Indictment No. 23928. George W. Beavers and George E. Green, indicted September 17, 1903, for violation of section 5440, Revised Statutes. Conspiracy to commit an offense against the United States in connection with the purchase of Bundy time recorders.

Indictment No. 23940. George W. Beavers and George E. Green, indicted October 1, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of Bundy time recorders.

Indictment No. 23941. W. Scott Towers, indicted October 1, 1903, for violation of section 1781, Revised Statutes. Receiving money for promoting Elliott & Hatch typewriter contract while an officer of the Government.

Indictment No. 23942. W. Scott Towers, indicted October 1, 1903, for violation of section 1782, Revised Statutes. Receiving money for promoting Elliott & Hatch typewriter contract while an officer of the Government.

Indictment No. 23948. James N. Tyner and Harrison J. Barrett, indicted October 5, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with the Equitable Debenture Company and others.

Indictment No. 23949. James N. Tyner and Harrison J. Barrett, indicted October 5, 1903, for violation of section 5440, Revised Statutes. Conspiracy to commit an offense against the United States in connection with Southern Mutual Investment Company.

Indictment No. 23950. James N. Tyner and Harrison J. Barrett, indicted October 5, 1903, for violation of section 5440, Revised Statutes. Conspiracy to commit an offense against the United States in connection with the Continental Security Redemption Company.

Indictment No. 23951. James T. Metcalf, Harry C. Hallenbeck, and Norman R. Metcalf, indicted October 5, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with printing money-order forms.

Indictment No. 23952. Harrison J. Barrett, indicted October 5, 1903, for violation of section 1782, Revised Statutes. Receiving compensation for obtaining a letter from Assistant Attorney-General approving the business methods of the Continental Security Redemption Company, of Birmingham, Ala.

Indictment No. 23953. Harrison J. Barrett, indicted October 5, 1903, for violation of section 1782, Revised Statutes. Receiving compensation for obtaining a letter from Assistant Attorney-General approving the business methods of the Continental Security Redemption Company, of Birmingham, Ala.

Indictment No. 23954. George W. Beavers, indicted October 5, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of the Elliott & Hatch typewriters.

Indictment No. 23955. W. Scott Towers, indicted October 5, 1903, for violation of section 5451, Revised Statutes. Bribery of George W. Beavers in connection with purchase of Elliott & Hatch typewriters.

Indictment No. 23956. Harry C. Hallenbeck, indicted October 5, 1903, for violation of section 5438, Revised Statutes. Presenting false claims in connection with contract for printing money-order forms.

Indictment No. 23957. August W. Machen, indicted October 5, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of badges for rural free delivery carriers.

Indictment No. 23959. George W. Beavers, indicted October 5, 1903, for violation of section 5501, Revised Statutes. Accepting a bribe in connection with purchase of Elliott & Hatch typewriters.

Indictment No. 23960. George E. Green and Willard D. Doremus, indicted October 5, 1903, for violation of section 5451, Revised Statutes. Bribery of George W. Beavers in connection with purchase of Doremus canceling machines.

Indictment No. 23961. George W. Beavers, George E. Green, and Willard D. Doremus, indicted October 5, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of Doremus canceling machines.

At Brooklyn, N. Y.

Edmund H. Driggs, indicted June 24, 1903, for violation of sections 1781 and 1782, Revised Statutes. Accepting compensation while a member of Congress for promoting contract of Brandt automatic cashiers.

George F. Miller, indicted June 25, 1903, for violation of section 1781, Revised Statutes. Paying Congressman Driggs for promoting contract of Brandt automatic cashiers.

George W. Beavers, indicted July 16, 1903, for violation of section 1781, Revised Statutes. Participating in money received by Congressman Driggs for promoting contract of Brandt automatic cashiers.

At Baltimore, Md.

Thomas W. McGregor and C. Ellsworth Upton, indicted June 25, 1903, for violation of section 5440, Revised Statutes. Conspiracy to defraud the United States in connection with purchase of carriers' pouches.

At Cincinnati, Ohio.

Daniel V. Miller and Joseph M. Johns, indicted October, 1903, for violation of section 5440, Revised Statutes. Conspiracy to commit an offense against the United States in connection with John J. Ryan & Co.

The exhibits are withheld from publication pending the trial of criminal cases against a number of the offenders.